

Financials

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USPS Health Promotion Program, Postal Stampede

Highlights

- **\$1.57 billion net income**
second most profitable
year in postal history
- **Priority Mail revenue up**
10.6 percent
- **Decline in rate of Worker's**
Compensation growth due
to management actions
- **32 major capital projects**
totaling \$2.9 billion
approved
- **Interest expense declined**
35 percent



Financial

"The second most profitable year in our history"

Last year, we were pleased to report to you our most financially successful year in the history of the Postal Service with record net income of nearly \$1.8 billion. At that time we said this was a solid foundation for 1996.

Building on that solid foundation, we cut negative equity from \$4.2 billion to \$2.6 billion. We reduced our interest expense on borrowing from \$566 million to \$368 million, a reduction of almost 35 percent. We established two new short-term credit lines with the Department of the Treasury that will save us millions of dollars in future interest expenses. The results are in, and 1996 proved to be the second most profitable year in our history with net income of almost \$1.6 billion, giving us back to back successes.

Holding prices, controlling costs

No one wants price increases. But costs keep going up every year — payroll, gasoline, rent, utilities, the list goes on. We are working hard to control costs and improve service. We have adopted Economic Value Added (EVA) as our financial yardstick. With this measure we focus on the critical components of any successful organization — revenue generation, return on capital investment, and efficient operations. We do this in order to maximize the creation of value for the Postal Service. We linked EVA with an incentive payment program to motivate employees to produce long-term positive results. We began an incentive program three years ago, and have expanded it to over 50,000 employees. I believe this is a major reason for our success.

But later this century a price increase may be unavoidable. Since 1994, our operating expenses have risen 9.6 percent. And by 1998 inflation will probably add another 7 percent to our costs. Whether we will have to increase our prices will depend on the volume of mail we have to handle, the success of our cost control programs, and perhaps postal reform legislation.

Another issue is labor costs. We must control these costs to remain competitive. One of the Postal Service's main strategies is to automate where possible. As we have implemented these programs and installed new equipment, we have seen reductions in our labor costs. We must continue to help our employees work better, smarter and more efficiently.

Debt strategy

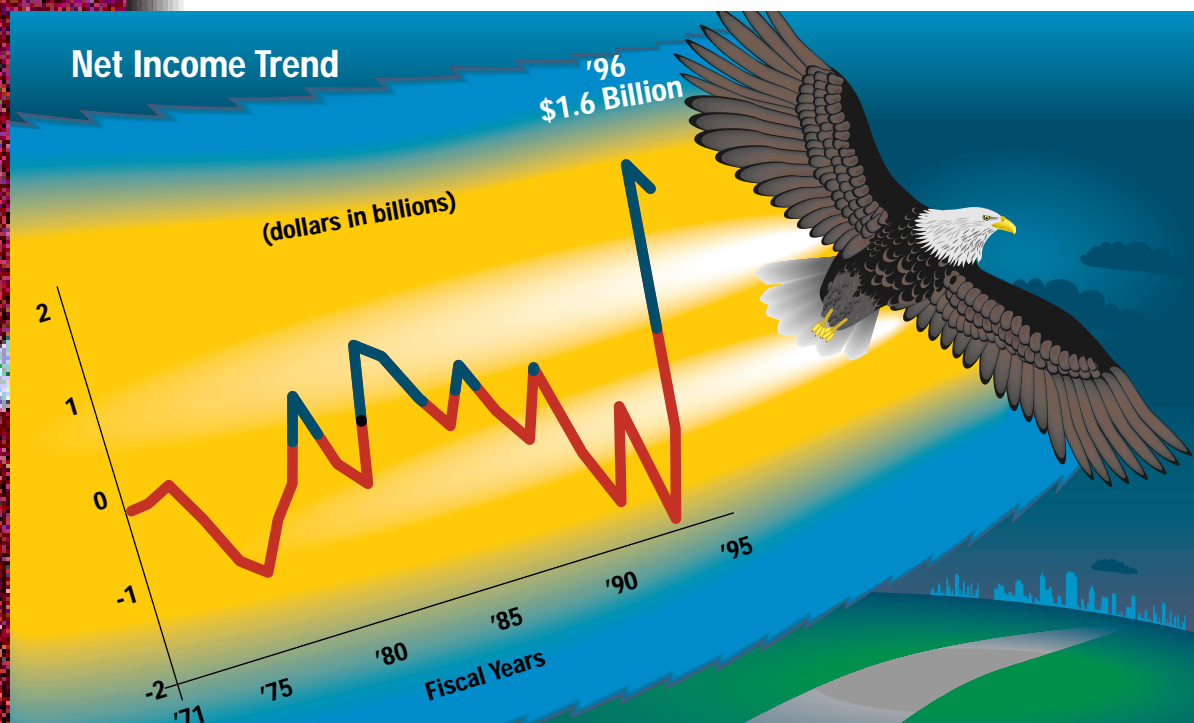
The Postmaster General set our cash management strategy in 1992 when we restructured our debt. In 1996, we exercised the first call option on our restructured debt and repaid a \$1.5 billion note at par. Our 1992 restructuring also changed our cash management policy, which is described later in this annual report. Our strong net income has allowed us to reduce what we owe to the Federal Financing bank from \$9.9 billion in 1992 to \$5.9 billion in 1996.

By using funds generated from our strong financial performance to reduce our debt, we are financing our operations at the lowest possible cost while making the capital investments we need to make to ensure a better



Alexander Hamilton Gold Award for Cash Management and the Alexander Hamilton Award for Excellence in Treasury Management

Success



future. We plan to commit \$6 billion in capital projects in 1997, which is more than three times the average commitments we made from 1990 to 1995. These capital investments will make us more efficient while delivering better service to our customers.

Financial plans

For the coming year our goal is to have another positive net income, extending for a third year the rate cycle we began in 1995. In that year, we had a 10.3 percent price increase, the lowest in our history, averaging about two percent since our last increase. For the next year we estimate our net income will be approximately \$55 million. And we hope to do significantly better than this budget for the fourth straight year. This budgeted net income is signifi-

cantly lower than those of the past two years and is the result of increasing costs and of no general rate increase for what will then be three years. But do not interpret this message as doom and gloom. In fact, it is quite the contrary. We have demonstrated that we can run the Postal Service as a successful business.

In summary, our financial performance was the result of the efforts of many individuals doing the best job possible.

Michael J. Riley
Chief Financial Officer
and Senior Vice President

The management of the United States Postal Service has a unique fiduciary responsibility to the American public, whom we consider our “stockholders,” to safeguard the assets of the Postal Service. Practically speaking, this means we must meet our mandate to provide universal postal service in a timely manner at the most reasonable cost.

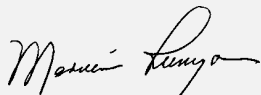
To help us meet our mandate of providing postal services at a reasonable cost, we maintain a system of internal controls. These built-in checks and balances are strengthened by internal audits conducted by the Postal Inspection Service and external reviews conducted by outside auditors. These measures provide us with reasonable assurance that we meet our mandate and comply with the laws and regulations applicable to the Postal Service.

The external reviews include audited financial statements and a consideration of our internal system of control. The outside auditors are Ernst & Young LLP. The auditors are selected by the Board of Governors, based on recommendation of the Audit Committee of the Board of Governors. (None of the Audit Committee are Officers of the Postal Service.)

In order to help us meet our mandate of providing postal service in a timely manner, we use an outside firm, Price Waterhouse LLP, to measure our “timely service” for First-Class Mail.

However, we believe that the best guarantee of “cost” and “service” lies with each employee. The Postal Service is only as good as the job each and every one of us does. When each of us does the best job he or she can, the Postal Service will deliver the best service at the best cost.

To instill this idea into our corporate culture, we have instituted a program where every executive personally signs a statement of Acknowledgment of Accountability. We, the Management Committee, support and abide by these acknowledgments to accept responsibility for our decisions and actions.



Marvin Runyon



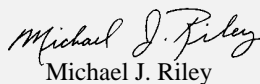
Michael S. Coughlin



William J. Henderson



Allen R. Kane



Michael J. Riley

Overview

Although we are not required to file a financial report with the Securities and Exchange Commission (SEC), we have decided to include a Management Discussion and Analysis (MD&A) in our annual report. According to SEC regulations, the MD&A should give the reader “an opportunity to look at the company through the eyes of management by providing a short and long-term analysis of the business of the company.” In our discussion, we have initially attempted to comply with the essence of the SEC requirements for an MD&A written in plain language.

Our MD&A is in two major topics: Operations, and Liquidity and Capital. In Operations, we discuss Income, Revenues, Expenses and Other Issues. In the Income section, we discuss our net income and the sources and amounts of our contributions by our core classes of mail. With net income of \$1.6 billion we had an outstanding year in 1996. This followed our record net income of almost \$1.8 billion in 1995, giving us two outstanding years in a row. In relation to our net income, we discuss the rate-setting process that Congress has established, a process that exercises significant control over our revenues. We also discuss equity restoration. Finally, in this section we discuss our new Economic Value Added (EVA) program, which is a tool that we will use to measure and manage our financial performance.

In the Revenues section, we discuss our revenue by our core classes of mail. Three classes of mail — First-Class Mail, Priority Mail and Standard Mail (A) — account for over 90 percent of our volume and contribution. Revenue from First-Class Mail grew 3.3 percent, 10.6 percent from Priority Mail and 3.5 percent

from Standard Mail (A) in 1996 compared to 1995.

In the Expenses section we discuss the two operating expense categories — Personnel Compensation and Benefits, and Transportation — that make up over 84 percent of our total expenses. During 1996 we controlled costs and held them to an increase of 4.2 percent. Even though our workload increased and we have improved our service, personnel compensation and benefits increased by 1.8 percent over 1995. Both an increase in the amount of transportation and in the cost of transportation caused transportation expenses to increase 7.3 percent.

Finally, in the Other Issues section we discuss those issues that we think may significantly affect our financial condition. Using standard economic indicators, we discuss the future market for postal services. We also discuss proposed postal reform legislation, environmental matters, recently approved classification reform and inflation.

In Liquidity and Capital, we discuss our liquidity management program, a program that won a national award. In addition to managing our liquidity better, we have reduced our debt 40 percent since 1992. And we have established two new lines of credit with the Department of the Treasury making it easier and more economical for us to borrow money should the need arise. We also discuss our 1996–2000 capital investment program. Under this program we will invest \$9.5 billion in capital projects designed to improve customer service while helping us operate more efficiently and economically.

Our discussion in the MD&A represents our best estimate of the trends we know about and the trends we anticipate. Actual results may be different from our estimates.

Income

In this section we discuss our net income and the sources and amounts of our contributions for 1996. In this section we discuss the rate-making process that determines our rate structure. We discuss also the effects of equity restoration, which we are required to include in our rate structure. Finally, we discuss our Economic Value Added program, which we think will help us better manage our resources.

Our income depends on the rates we are allowed to charge, on the mail we handle and our expenses. For a further discussion of our changes in mail volume, see the Revenue section. For more details on our expenses, see the Expenses section.

Net income and contribution

We had a net income of almost \$1.6 billion in 1996. This income, in the year immediately following our record net income of almost \$1.8 billion in 1995, gave us a

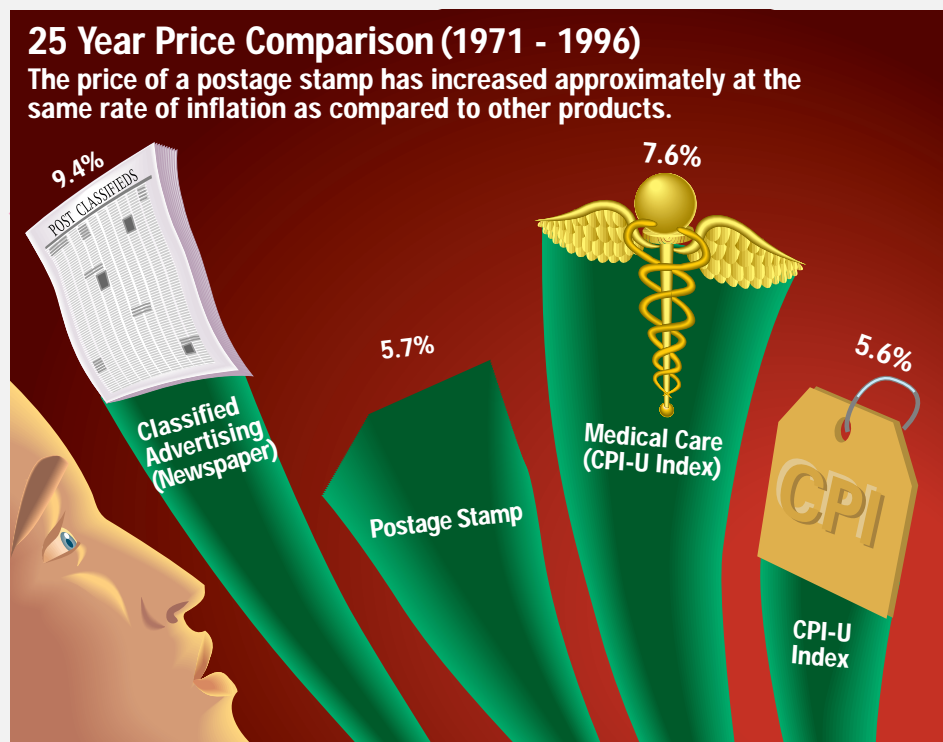
two-year net income of over \$3.3 billion — an amount that ranks with the companies that had the highest income in the world during the same time.

Obviously, this success is due to a combination of factors. Operating revenue increased over \$2.1 billion compared to last year, which largely offset operating expense growth of almost \$2.4 billion. A key factor in controlling our expenses was a modest increase of \$744 million in compensation and benefits in 1996, and a \$198 million reduction in the interest we paid to borrow money, a reduction that is a direct result of improvements in our cash management program.

While the new rates that went into effect in January 1995 gave a boost to revenue, it should be noted the increase was relatively small at only 10.3 percent and it had been four years since the last general rate increase. As noted below, from 1971 to 1996 the price of a postage stamp has risen at the same annualized rate of inflation as measured by the Consumer Price Index (CPI-U).

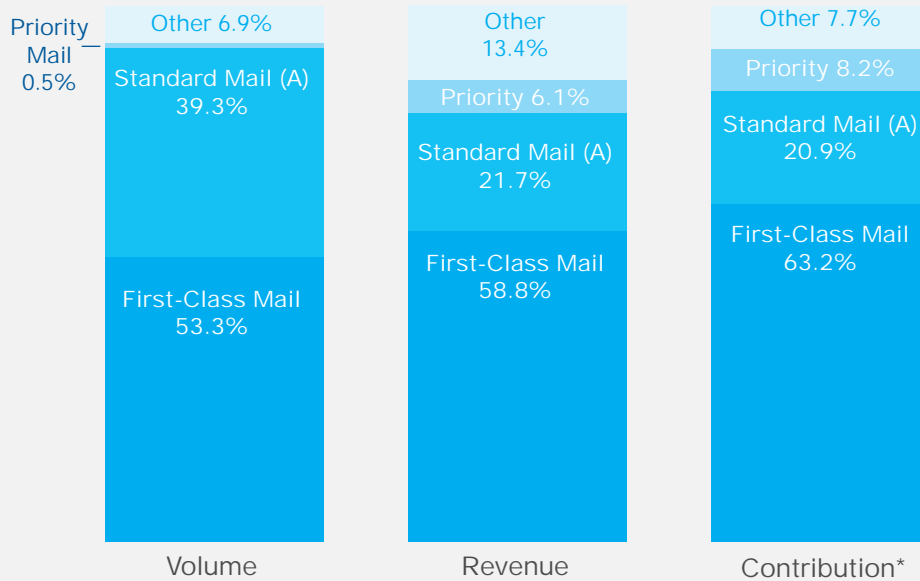
Our modest volume increases in 1996 cut through most of our product lines. While we have introduced various new products to diversify our product base, their impact is minimal in relation to our core products. Our main core product, First-Class Mail accounts for roughly 53 percent of our volume, 59 percent of our revenue, and 63 percent of our contribution. Priority Mail, which accounts for less than 1 percent of our volume, contributes over 8 percent to the bottom line. Our bulk business mailers contributed almost 22 percent of revenue. These three classes combined to provide over 90 percent of our volume and contribution. While we need to include in our focus prudent allocation of resources to expand our opportunities for revenue growth, it is clear that we also need to pay attention to what we do best, which is our core business. We believe that attention to detail in this area — personal accountability, emphasis on service, prioritization of resources and emphasis on product contribution — will contribute to our future success.

The chart on page 37 depicts the projected 1996 contribution from various classes of mail. Contribution is the difference between revenue and attributable costs. Generally speaking, attributable costs are those costs that vary directly or indirectly with changes in mail volume. For example, nearly all mail processing costs are considered attributable costs since changes in mail volume directly affect the number of hours clerks and mailhandlers have to work. On the other hand, only a fraction of postmaster salaries are considered attributable costs since these costs are, for the most part, unaffected by changes in mail volume. In 1995, attributable costs totaled \$33.4 billion, or about 63 percent of total costs. The remaining \$19.3 billion of costs are called institutional. Institutional or common costs are those costs of mail service that must be borne, ultimately, by the



Volume, Revenue and Contribution

by mail class
(Percentages)



* Projected from 1995

combined revenues of all classes. When we say that First-Class Mail “contributes” \$13.9 billion, for example, we mean that we collect enough postage from First-Class Mail to cover its costs and to contribute \$13.9 billion toward the institutional or common costs of mail services.

The Volume, Revenue and Contribution chart above shows contribution by class of mail. Together, First-Class Mail, Priority Mail, and Standard Mail (A) represent 92 percent of the total contribution. Slightly more than 50 percent of our First-Class Mail contribution comes from single-piece mail.

Rate-setting process

Until 1971, Congress set postage rates by law, with no relationship between the revenue from those rates and the actual cost of operating the postal system. Since 1971, however, the Postal Reorganization Act has required the Postal Service to establish postal rates that cover the costs of operating the postal system. To

achieve this alignment of rates with expenses, the Act established a rate-making process that allows rates to be adjusted as necessary.

The rate-making process begins when the Board of Governors submits a request for a recommended decision on rate and fee changes to the Postal Rate Commission. (Like the Postal Service, the Commission is also an independent establishment of the executive branch of the government.) As allowed by law, the Board of Governors submits its request accompanied by detailed rate proposals supported by extensive testimony and documentation.

The Commission holds public hearings, allowing such interested parties as mailers, competitors and consumer advocate groups to question the Postal Service’s proposals and submit their own testimony and proposals. At the conclusion of the hearings, the Commission transmits its recommended decision to the Board of Governors. The Board of Governors may approve, reject, allow under protest, or, under certain

limited circumstances, modify the Commission’s recommendations.

Although the Postal Reorganization Act requires the Commission to issue its recommended decision within 10 months of the filing of the Postal Service’s request, the entire process — starting with preparing the necessary documentation to support the rate proposals and ending with implementing the new rates — takes approximately 16 to 18 months. While this rate-making process has allowed us to bring revenues more in line with costs (when compared with the rates set by Congress), it offers us only limited flexibility in responding quickly to changes in our costs and in the markets in which we compete.

Equity restoration

By law, our rate-making process must produce revenues that at least equal our expenses. This means we must “break-even” over time. While we may ask in our rate filings to make up for our losses in prior years, we can include only one-ninth of our losses in our filings, thus spreading our losses over time. At the end of 1994, we had almost \$9 billion in cumulative net losses. Our net capital deficiency was approximately \$6 billion. We also had slightly more than \$3 billion in contributions received from the United States government since we were established in 1971. Obviously, we have neither achieved break-even nor recouped our losses from prior years.

In July 1995, the Board of Governors adopted a resolution to restore equity. Beginning with the 1995 rate increase, we must average an annual net income of \$936 million. If our projections show that we will not meet that goal, the Board and Management will take actions to reduce costs and/or increase revenues.

Since the adoption of this resolution, we earned a two-year combined



Moving ever-increasing amounts of mail quickly, efficiently and economically requires large investments in technology like flats sorting machines.

net income of \$3.3 billion, exceeding our required equity restoration by almost \$1.5 billion. Our current plans for 1997 will keep us in compliance with the Board's policy. We will continue to pursue cost reductions and revenue growth, and to determine the need for any possible rate increase.

Economic Value Added

In 1996, we adopted Economic Value Added (EVA) as the measurement we use to set our short-term and long-range financial goals, determine whether a business strategy makes financial sense and evaluate our total financial performance. EVA is a comprehensive financial measure that gives us a single number representing both our operating results and how efficiently we use our assets. By measuring how efficiently we use the resources we have invested in the business, we can determine from EVA how much value we have added to our business from one year to the next. EVA is the tool we use to measure as well as manage our financial performance.

We calculate EVA by taking our net operating income, as defined for EVA purposes, and subtracting a charge for the capital we use to produce that income. Because EVA is a measure of operating results, it excludes financing costs such as interest and any unusual or nonrecurring transactions that are not part of the normal course of business.

EVA emphasizes managing the business and creating value. It focuses our attention on increasing and improving our business and producing long-term value by using our present capital investment the most efficient way we can, and by making sure any future capital investment will contribute to our long-term financial goals and to our financial results.

EVA is a tool to help us manage our business more efficiently and effectively, develop solid cost-control measures, increase our revenues and better serve our customers by delivering the new products and services they want. It will help us invest efficiently and effectively in equipment, facilities and materials that will improve our performance in serving

our customers and our stakeholders. It will also help us be the most efficient organization we can be, and produce the strongest possible financial returns on investment. We did not use EVA as a financial measure in 1995 or 1994. In 1996, the first year we used EVA to measure our performance, we had an EVA of \$1.070 billion.

A key to achieving continuous improvement is linking compensation with results. An integral part of our EVA system is an incentive payment system that rewards people for financial performance (as measured by EVA), customer service and employee commitment. EVA involves the efforts of each and every employee in contributing to our financial and operating performance. We ask each employee to work smarter, more efficiently and more creatively. Doing things right the first time and every time contributes directly to improving our EVA. In addition, we encourage our employees to find ways to reduce waste, control inventories and expenses and operate equipment efficiently. We also encourage our employees to serve our customers better and improve our products and services.

EVA is an essential part of our mission to be a customer-driven business with products that provide the best value in the postal communications market. We think EVA will be an important means for achieving that goal.

Revenues

In this section we present our revenue results for 1996, compare these results to 1995 and 1994 and discuss trends that we believe to be important. These trends represent our best judgments, actual results may vary from our estimates.

General

We get mail from our customers two ways: from mail boxes and our other regular ways of collecting mail, and from bulk mail deposited at one of our bulk mail entry units. We can very accurately identify bulk mail by class, but we cannot easily identify by class of mail the mail deposited in collection boxes. We get over 60 percent of our mail through our bulk mail entry units, so we can identify this revenue according to classes of mail.

For the other mail, we use a sophisticated sampling system that allocates the revenue from this mail to classes.

This process is, however, not available in final format until six months after our year end. During the year, we use a number of sources of data to update the models that forecast our revenue, the number of pieces of mail we handle, and the weight of the mail. Some of our analysis and data in this section comes from those models.

Operating revenues

Compared to 1995, our operating revenues for 1996 increased 3.9 percent to \$56.4 billion. While revenue for Priority Mail increased 10.6 percent on a 10.4 percent increase in volume, revenue gains in our other classes of mail were more modest. We expect volume to continue to grow in 1997, with revenues growing proportionally in most classes of mail. Overall, for 1997 we expect revenue to grow approximately 2 percent, with Priority Mail and Standard Mail (A) leading that growth.

Classes of mail

First-Class Mail, Priority Mail, and Standard Mail (A) are our three core business products, and they combine to make up about 86.6 percent of our total revenue, which is approximately the same percentage as 1995 and 1994. We will discuss these three core classes of mail below, and two other classes, Standard Mail (B) because of its volume size, and International Mail due to its significant revenue growth in 1996.

First-Class Mail

First-Class Mail, which includes personal correspondence, post cards, and business transactions, affords

privacy because it is sealed against inspection (commonly known as the sanctity of the seal). First-Class Mail revenues, which make up 59 percent of our total revenue, grew approximately 3.3 percent in 1996. When comparing 1995 to 1996 you should keep in mind that the first quarter of 1995 was at our previous rates. The first quarter is also our peak mailing season of the year. Thus most of the change from 1995 to 1996 can be attributed to comparing our peak quarter at two different rate structures. Therefore, this growth was primarily attributable to the rate increase that took effect in January 1995. The increase of 1.0 percent in the volume of First-Class Mail during 1996 had a minimal impact on the growth in First-Class Mail revenue. When we compare 1994 to 1995, you must again realize that you are comparing three quarters of 1995 at the new rate structure. First-Class Mail revenue was up 8.8 percent from 1994 to 1995, almost entirely attributed to our new rates. The increase of 1.0 percent in the volume of First-Class Mail during 1995 had a minimal impact on the growth in First-Class Mail revenue that year.

Our future depends on keeping our costs down, our prices competitive and our service reliable.

Mail per Capita, Revenue and Expense per Piece

	Years ended September 30,		
	1996	1995	1994
	(in units indicated)		
U.S. resident population			
July 1 estimate (in millions)	265.8	263.3	260.7
Percent change	0.9	1.0	1.1
Pieces of mail per capita	687.0	686.0	683.0
Percent change	0.1	0.5	2.9
Operating revenue per capita	\$ 212.3	\$ 206.23	\$ 189.45
Percent change	2.9	8.9	2.8
Operating expense per piece of mail	29.08¢	28.07¢	27.37¢
Percent change	3.6	3.1	1.2
Operating revenue per piece of mail	30.88¢	30.04¢	27.74¢
Percent change	2.8	8.3	0.2
NET INCOME (LOSS) PER PIECE OF MAIL	0.86¢	0.98¢	(0.51¢)

Certain reclassifications have been made to previously reported amounts.

Management Discussion and Analysis of Operations

Volume growth for First-Class Mail closely tracks the performance of the economy as a whole, because business mailers generate the majority of volume and revenue for the class. The pending United States government requirement for electronic payment of business taxes is expected to generate about 160 million electronic transactions a year from seven million companies. Many states are pursuing similar goals, and both federal and state governments are pursuing strategies to move benefit payments from checks to electronic transactions. We expect to lose significant First-Class Mail revenues as a result of this type of initiative.

This class of mail faces competition from electronic mail, facsimiles and automatic bill payment systems. One of the ways we are responding to this competition is our classification reform instituted in July 1996. The effect of reclassification on First-Class Mail will be that despite projected increases in volume of 2.5 percent, we project revenue increases of less than 1.0 percent. However, cost

Analysis of Mail Volume (pieces in billions)

	1996	1995	1994
First-Class Mail	97.28	96.30	95.33
Standard Mail (A)	71.86	71.11	69.42
Standard Mail (B)	0.96	0.94	0.87
Priority Mail	0.96	0.87	0.77
International Mail	1.00	0.80	0.86
Other (See pages 70 and 71)	10.60	10.71	10.79
TOTAL MAIL	182.66	180.73	178.04

savings due to reclassification should offset revenue decreases.

Standard Mail (A)

Formerly called third-class mail, Standard Mail (A) generally includes letters, flats and parcels that do not require the security of First-Class Mail nor the speed of Priority Mail. Advertisers or others generally mailing identical pieces of mail in bulk use this class of mail which makes up almost 22 percent of our revenue. Although the volume of Standard Mail (A) was flat, revenue grew 3.5 percent. This product faces competition from newspapers, television and mass faxing. The Internet has also emerged

as a potentially strong competitor for the revenue generated by Standard Mail (A). The efficiencies of Internet advertising, especially the ability to reach specific groups, will have a significant impact in coming years.

As with First-Class Mail, classification reform instituted in July 1996 will have an effect on 1997 revenue from Standard Mail (A). The effect of reclassification will be an increase in revenue and volume, but this increase will be minimal after the pending nonprofit classification reform case is decided.

Priority Mail

Priority Mail is used by our customers to expedite their mail. Priority Mail generally needs to reach its destination within two-three days, and it usually weighs more than First-Class Mail. Although Priority Mail in 1996 makes up approximately 6 percent of our total operating revenue, it is one of our fastest growing and most profitable classes. Volume grew 10.4 percent over 1995 and revenue grew 10.6 percent over 1995.

The comparison of 1995 to 1994 shows an increase in revenue of 15.9 percent due to a volume increase of 12.9 percent and the 1995 price increase.

During 1996, we targeted Priority Mail in our advertising. We estimate this will lead to increases in volume and revenue in 1997. However, we expect the rate of increase to decline similar to the trend set from 1994 to 1996.



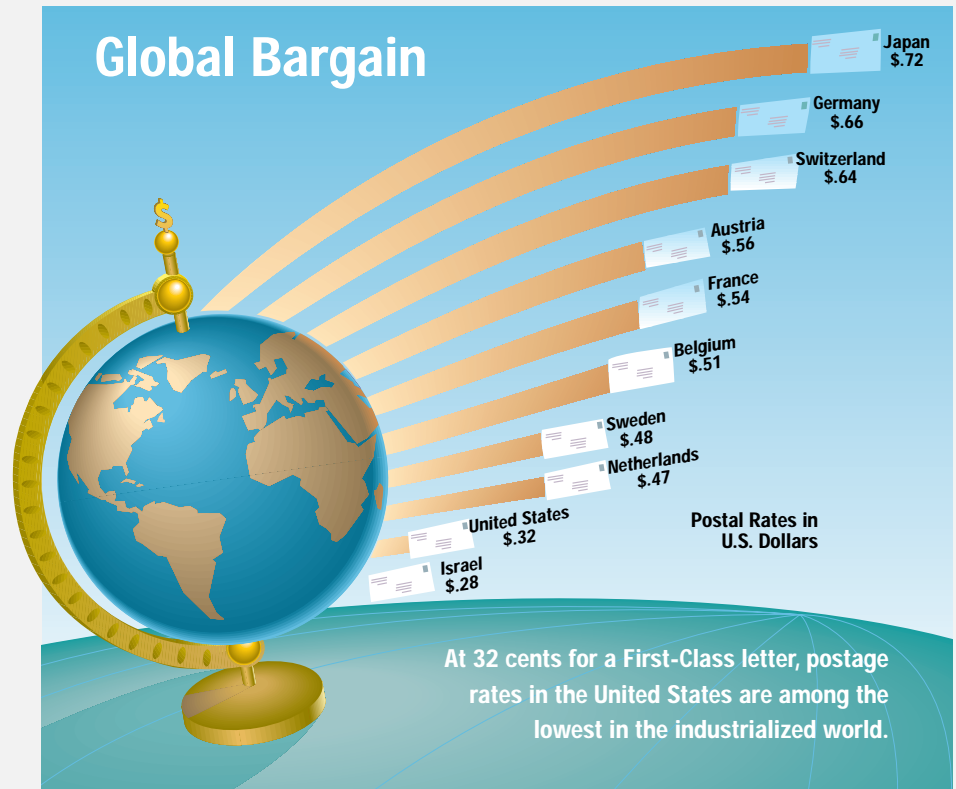
Standard Mail (B)

Formerly called fourth-class mail, Standard Mail (B) is primarily parcels and bound printed matter. In 1996, Standard Mail (B) volume grew 2.5 percent, while revenue grew 1.6 percent. While many of the types of messages that comprise First-Class and Standard Mail (A) are subject to diversion due to the development of electronic alternatives, growth in parcel volume has been stronger than letter mail and we expect it to grow. In order to compete more effectively in this market, we have begun offering Pack and Send, a service which allows customers to bring in items which are then packed in appropriate containers and shipped, if they wish.

International Mail

While not one of our core classes of mail, International Mail deserves mention. During 1995 we established the International Business Unit (IBU) to allow management to focus on this fast growing market. International Mail revenue has responded with a 10.2 percent increase from 1995 to 1996, following a 3.3 percent increase from 1994 to 1995. Most of the revenue growth from 1995 to 1996 can be attributed to the 8.3 percent increase in volume. We expect this trend to continue in 1997.

We are developing two products that we expect will contribute to our international revenue growth over the next few years. Global Priority Mail is an international expedited product offering four-day international deliv-



ery. Global Package Link, formerly International Package Consignment Service (IPCS), offers customers shipping merchandise overseas an expedited means of clearing customs.

Sources of mail volume

We identify six primary sources of mail volume. Within each source of mail volume, we offer a number of services geared toward the needs of a particular customer base. The sources of our mail volumes are correspondence and transactions, advertising,

expedited delivery, standard packages, international and publications.

Correspondence and transactions, the largest source, is composed mostly of First-Class Mail. Advertising is made from primarily First-Class and Standard Mail (A). We call advertising direct mail because it provides a method of directly reaching selected audiences.

Expedited delivery is used for urgent or valuable messages and packages. It includes both our Priority Mail and Express Mail classes of mail. Standard packages includes delivery of merchandise, books and other printed material. International mail volume is primarily derived from airmail, surface mail, Express Mail international service, International Surface Airlift, International Priority Airmail, and revenues received from foreign postal transactions, such as terminal dues and fees. The publications volume is mostly the delivery of newspaper and magazine subscriptions.

Analysis of Revenue (dollars in billions)

	1996	1995	1994
First-Class Mail	33.01	31.95	29.38
Standard Mail (A)	12.21	11.79	10.51
Standard Mail (B)	1.55	1.53	1.35
Priority Mail	3.40	3.08	2.65
International Mail	1.61	1.46	1.41
Other (See pages 70 and 71)	4.62	4.48	4.08
TOTAL REVENUE	56.40	54.29	49.38

Expenses

Our discussion of Operating Expenses will focus on the two operating expense categories that make up over 84 percent of our total expenses in 1996. These categories are Personnel Compensation and Benefits, and Transportation. Although not discussed here, interest on deferred retirement liabilities relates to the impact of changes to Personnel Benefits. The chart to the right presents the relative proportions of our major expense categories.

Compensation and Benefits

Driven by increased workload and improved service, our personnel compensation and benefits in 1995 grew 5.9 percent over 1994. In addition, arbitration decisions specified that most employees receive lump-sum payments of 2.78 percent of base pay or approximately \$950. Although

Analysis of Expenses (in percent)

	1996	1995	1994
Personnel compensation	59.24	60.97	60.64
Personnel benefits	18.39	18.53	17.80
Transportation	6.80	6.61	6.64
Supplies and services	4.53	3.71	3.20
Interest on deferred retirement	2.64	2.59	2.65
Depreciation and write-offs	2.45	2.16	2.07
Other	2.14	1.29	3.39
Rent and communications	1.47	1.38	1.18
Vehicle/building maintenance	0.92	0.93	0.83
Utilities	0.75	0.76	0.22
Interest	0.67	1.07	1.38
TOTAL	100.00	100.00	100.00

this was higher than we anticipated, the use of lump-sum payments in lieu of base salary increases will give us savings in the future.

Personnel compensation and benefits in 1996 increased 1.8 percent over 1995. This result was driven by moderate growth in the number of workhours, labor agreements which were accrued in 1995 in the form of lump sum payments, and reductions

in workers' compensation expenses. These factors combined to moderate growth in Compensation and Benefits, even as we achieved record service and customer satisfaction.

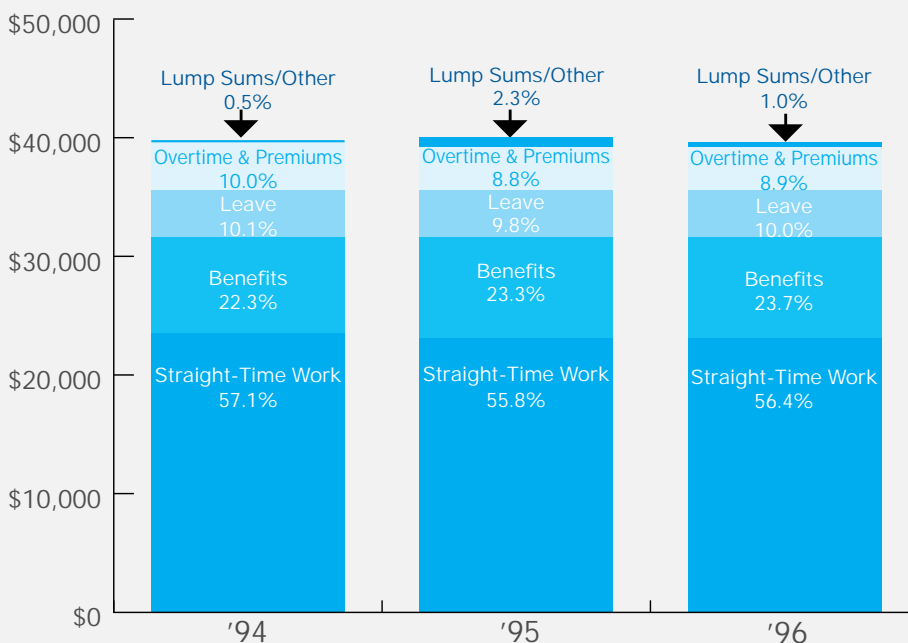
The increases in benefits reflect additional retirement and life insurance expenses triggered by cost-of-living adjustments (COLAs) which employees had earned in prior years but which were just now rolled into base salary.

In 1996, most employees covered by our collective bargaining agreements received general increases of 1.2 percent of base salary plus longevity increases for eligible employees and semi-annual COLAs of \$104 and \$416. In addition to merit basic salary adjustments and/or lump-sum payments for individual performance, most of our professional and managerial staff participated in the Postal Service's Economic Value Added (EVA) funded group incentive program. It is important to note that COLAs and general increases were eliminated for almost 80,000 Executive and Administrative Schedule (EAS) employees. In addition, approximately 34,000 EAS employees historically treated as nonexempt by the Postal Service but who met the Fair Labor Standards Act's exempt criteria were converted to exempt status. This action has important financial and managerial consequences.

Personnel Compensation and Benefits

Years 1994–1996

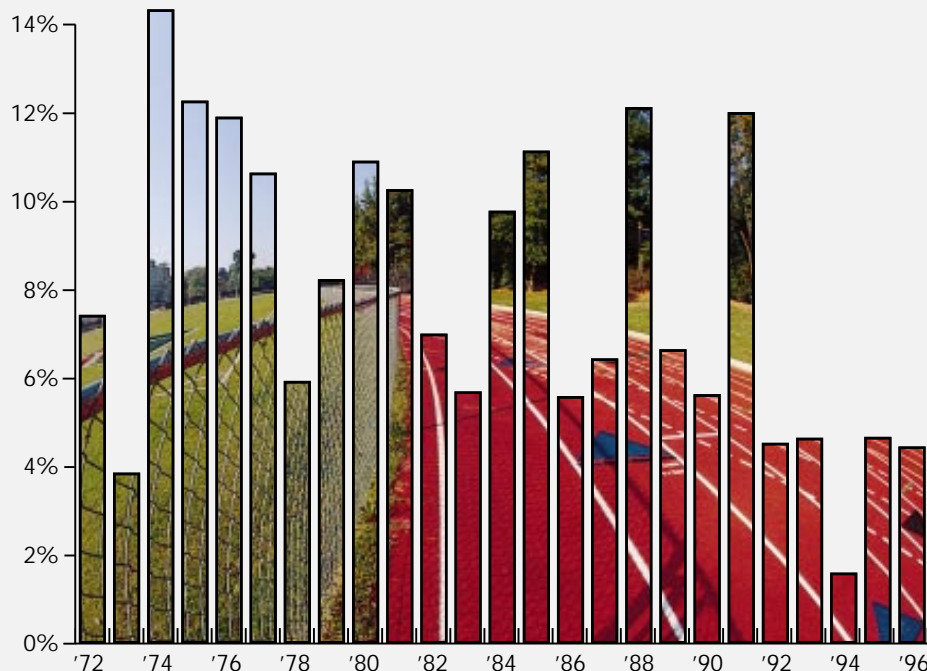
(dollars in millions; percentages)



Note: The above chart presents the major components of compensation and benefits as a percent of total personnel costs. It also illustrates the change in these components from 1994 to 1996.

Total Expenses

Years 1971–1996
(percent change)



In 1997, we expect compensation and benefits to grow in excess of 6 percent. Our initiatives to increase revenues are responsible for over 20 percent of this increase, which is part of our strategy to raise revenue not postage rates. We will use cost reduction programs to offset the increase in workload that results from increased volume. The remaining increase is driven by Remote Bar Coding System expansion, contractual payments and growth in benefit expenses.

Most employees covered by our collective bargaining agreements will receive a \$400 lump-sum payment in 1997. In addition, eligible employees will receive longevity increases and semi-annual COLAs, which are estimated to be about \$300 each. Most of our nonbargaining employees will again participate in the merit pay and variable pay programs. Compensation will be based on individual and group/corporate performance aligned with the *CustomerPerfect!* process.

Retirement expenses

We participate in a multi-employer retirement system. Essentially, our employees participate in one of three retirement programs, under the auspices of the United States government's Office of Personnel Management (OPM), based on the starting date of their employment, as detailed in Note 4 of the Notes to Financial Statements.

Employees hired before January 1, 1984, are covered by the Civil Service Retirement and Disability (CSRS) Fund. We and participating employees contribute 7 percent of the employee's basic pay to this fund. Approximately 43 percent of our employees are covered by this category.

Employees with prior government experience hired between January 1, 1984, and January 1, 1987, are covered by the Dual CSRS/Social Security System. We contribute 7 percent of the employee's basic pay; the employee contributes 0.8 percent of basic pay; and we and the employee contribute to Social Security and Medicare

at rates prescribed by law. Approximately 2 percent of our employees participate in the "Dual" system.

Employees hired since January 1, 1984, with the exception of Dual employees, are covered by the Federal Employees Retirement System (FERS). Other employees were given an option to transfer to FERS during periods in 1987 and 1988. This system consists of Social Security, a basic annuity plan, and a thrift savings plan. The federal government created FERS as a transition to a system that funds future retirement benefits based on dynamic actuarial assumptions. FERS employees are 55 percent of our total.

The following table describes our retirement contributions as a percent of an employee's pay.

	FERS	CSRS
Basic Annuity	11.4%	7.0%
Social Security	6.2%	0.0%
Medicare	1.45%	1.45%
TSP	≤ 5.0%	0.0%

We have omitted CSRS deferred retirement expense from this table. Our year-end payment to OPM, including interest, was \$3.1 billion for our CSRS deferred retirement liability. We have no deferred retirement expense for FERS employees. This amount does not include \$347 million we paid for retroactive COLAs and health benefits. We discuss these contributions in more detail in Note 4 of the Notes to Financial Statements.

While all employees may participate in the Thrift Savings Plan (TSP) as administered by the Federal Retirement Thrift Investment Board, the rules for participation are different for each group of employees. We do not match CSRS or Dual contributions to the TSP, and contributions are limited to 5 percent. However, we are required to make a voluntary contribution of 1 percent of basic pay to the TSP for FERS employees. In addition, we fully match employee contributions between 1 percent and 3 percent, and we match 50 percent of employee

contributions between 3 and 5 percent.

We fully fund FERS, the Dual and CSRS systems according to OPM stipulations. But since the estimated long-term liability created by increases to basic pay for CSRS employees exceeds the legal funding requirements of the Postal Service, we record a deferred retirement liability on our books.

We are liable for the estimated increases in the deferred retirement liability of the CSRS Fund that are attributable to Postal Service employee/management agreements that increase employees' basic pay.

The OPM determines the increase in the deferred retirement liability for active CSRS employees based on employee increases and actuarial data. We amortize this amount over 30 years, and we pay it in 30 equal annual installments including interest computed at 5 percent per year. The total increases in the annual expenses resulting from increases in basic annual salary are approximately \$228 million for 1996, \$135 million for 1995 and \$59 million for 1994. Interest charged for prior year retirement increases is listed separately in our Statement of Operations.

OBRA legislation

The 1989 Omnibus Budget Reconciliation Act (OBRA) gave us responsibility for COLAs of postal retirees (and their survivors) who retired after September 30, 1986. The 1990 OBRA superseded the 1989 OBRA and expanded our responsibility for the expense of COLAs to include all our employees who retired after June 30, 1971 (and their survivors). This expense is apportioned for federal civilian service performed after June 30, 1971. We amortize and pay this liability and our future liability over 15 years, beginning in the year the liability is created. The annual expense for retiree COLAs, including interest, is approximately \$750 million for



Using a new voice activated keying station, workers with Carpal Tunnel Syndrome can apply bar codes to mail for automated handling.

1996, \$689 million for 1995 and \$620 million for 1994.

In addition, the 1990 OBRA requires us to reimburse the federal government for COLA payments that we would have made if the provisions of the 1990 OBRA had been in effect on July 1, 1971. The total payments for these retroactive COLAs amounted to \$1.7 billion. We accrued the present value of the payments and recorded this value as an expense in 1991. We made the fifth and last payment of \$471 million on September 30, 1995.

The 1993 OBRA requires us to pay interest of \$1.041 billion on the retroactive assessments we were charged under the 1990 OBRA. This assessment represents 5 percent interest on the employer's portion of those retiree cost-of-living adjustments (COLAs) and health benefits that the Postal Service would have paid had the provisions of the 1990 OBRA been in effect from July 1, 1971, through September 30, 1986. We will pay this interest in three annual installments, beginning in 1996.

Workers' compensation

What is workers' compensation expense? When postal employees are injured on the job and unable to return to work, under federal law they are entitled to workers' compensation, which means we pay their lost wages and medical bills related to on-the-job injuries. Since we do not maintain workers' compensation insurance, we make such payments out of our own funds. Thus, our bottom line is affected every time an employee is injured and unable to return to work.

In fact, accounting rules require that if an employee is eligible to receive workers' compensation at year end we must record a liability for the present value of all his or her expected future payments. Currently, the average liability per employee claim for lost wages is over \$167,000, and the average liability per employee claim for medical bills is over \$9,400.

In 1996, we changed one of the assumptions we use to estimate our workers' compensation liability. As part of our calculation, we use the trends in our claims for the current year and the claims from previous years to estimate the length of time an employee will

receive workers' compensation. We now place greater emphasis on our experience with prior years' claims. As a result, we have an increase in expense of \$112.9 million in 1996.

At the end of 1996, we estimate our total liability for future workers' compensation costs at \$5,423.8 million. At the end of 1995, this liability was \$5,218.6 million. In 1996, we recorded \$736.5 million in workers' compensation expense, compared to the \$877.3 million we recorded in 1995.

In the past, workers' compensation expenses tended to increase every year as more and more employees received payments for lost wages and medical treatment. And, once injured employees were put "on the rolls," they tended to stay there. So, in 1992, we formed a task force to reduce the number of employees on the workers' compensation rolls by returning to work all employees who are able to return. The task force has worked hard to return employees to work and to end compensation for those employees who are able to work but who refuse valid job offers. And as we pursue new technologies as part of our capital investment program, we expect to provide increased opportunities for employees on workers' compensation to return to work.

However, the most effective way to reduce our workers' compensation expense is to prevent injuries. So we have begun an intensive study of how and where we work in order to identify anything that might contribute to the possibility of a worker being injured. Our back-to-basics program called Second-to-None establishes a formal methodology to track progress on creating a safer working environment. In addition, one of the objectives of our capital investment program is to add equipment that will reduce the number of on-the-job injuries.

We have also hired additional employees, including 12 human

resources specialists, to research claims for workers' compensation. We have increased the funding for fraud investigations and added 25 postal inspectors for fraud investigations. We have started a program for auditing large medical bills. And, most importantly, we have started a special program called PR 1000 with the goal of reducing an additional 1,000 cases from the long-term Periodic Rolls through closer collaboration between postal medical and task force personnel. In short, we are serious about managing our current claims in order to reduce our workers' compensation expense.

We are also serious about eliminating fraudulent claims. We are so serious, in fact, that we now offer a reward of \$10,000 to anyone who gives us any information that leads to the arrest and conviction of any current or former employee or medical service provider who has defrauded the workers' compensation program. Anyone with any such information can make a confidential call to 1-800-654-8896.

Transportation

Although volume grew, the major reason that our transportation ex-

penses increased \$253 million or 7.3 percent, compared with 1995, was an increase in both the amount and cost of transportation. In contrast, our transportation expenses increased \$137 million or 4.1 percent from 1994 to 1995.

In order to achieve our successful service levels, we increased the use of our expedited mail transportation systems in order to meet our scheduled delivery times. As long as we continue to improve our level of service and expand these expedited systems, we expect our transportation costs to continue to grow.

However, increases in the costs of fuel from 1994 to 1995 and from 1995 to 1996 were responsible for some of the increase in our transportation expenses. While fuel prices increased less than 3 percent from 1994 to 1995, they increased over 4 percent between 1995 and 1996. This increase significantly affected our transportation costs. In addition, our contract rates with major airlines and others who provide us mail transportation services also increased as these companies passed along to us the increase in their fuel costs.

Workers' Compensation

For any year, our workers' compensation expense is the sum of the increase in the liability for future payments plus the payments we make in the current year.



Other Issues

In this section we discuss other issues that we think may affect us. We discuss the future market for postal services, proposed postal reform legislation, environmental issues, recently approved classification reform, and the effects of inflation.

Of course, we can't be sure that our views on the following issues are accurate, but the discussion represents our best judgment of what we think is relevant to our present and future operations. Actual results may well be different from our best estimates.

Outlook

While you review our Management Discussion and Analysis, you may find it helpful to understand how we see the future of the correspondence and mail business.

We believe the correspondence and mail business will remain a dynamic market and that the Postal Service will continue to be the largest mail service organization in the world. For the short term, we expect modest growth in our overall markets. However, we also expect that our market share will be continuously eroded by competitors who are not bound by the kind of regulatory mandates that restrict us. These competitors are free to target profitable customers and sectors of the market while declining service to others. On the other hand, we don't think that in the short term we will lose significant market share to alternative technologies such as electronic mail and bill paying. However, we know that for the long term it is the rate of growth of such technologies and not their current size that is important. We know that our future depends on keeping our costs down and our prices competitive. In order to do this, we need to make large capital investments in order to automate as much as possible how we do business and to reduce our labor

costs in relation to our total expenditures while increasing our level of service.

We use standard economic indicators to estimate future economic activity, to forecast the entire market for postal service, and to estimate the volume of mail we can expect to handle in the future. While our estimates are based on the best information we have, actual results may differ from our estimates. According to our analysis of these economic indicators, the United States economy should expand at a steady, if not remarkable, pace between 1995 and 2006. The annual growth in the Gross Domestic Product (GDP) should average 2.6 percent annually through 2006. We also assume that we can use past performance to predict future activity, so we compare selected economic indicators of the past to the mail volume and the mail revenue for the same period of time. Using this procedure we have learned that, in the long run, mail volume tends to follow the level of economic activity. From this trend, we can estimate mail volume from now to the year 2005. However, forecasts based on historical trends assume that nothing new will come along and change the trends. Clearly, such changes as new technologies could significantly affect our historically based forecasts, and we attempt to allow for them in our planning.

We have found that an increase in population is a crucial factor in the long-term growth of mail volume. The adult population (as measured by persons 22 years old or older) rose 50 percent from 1970 to 1995. During this same time, mail volume rose 113 percent. Since studies predict that the population of the United States will grow 11 percent from 1995 to 2006, we think it is safe to assume that the volume of mail will also increase during this period of population growth, just as it has in the past.

Moreover, we think that the baby boomer population will continue to be the major economic force in the mail services we will need to deliver. According to the Household Diary Study, First-Class Mail peaks in the 45-64 age group and Standard Mail (A) in the 65-69 age group. We think that as these age groups increase and as they reach their maximum earning power, they are more likely to use traditional mail services, while the younger population may be more likely to switch to alternative postal services.

Our outlook represents our best judgment of both the trends we know about and the trends we anticipate, trends that we think are relevant to our future operations. However, actual results may differ from our best judgment.

Postal reform legislation

Rep. John McHugh, chairman of the House Subcommittee on the Postal Service, introduced postal reform legislation in June 1996. The proposed bill would make dramatic changes in the way the Postal Service sets prices and provides mail service to the nation. If passed as introduced, it would have affected the financial condition and operations of the Postal Service. If reintroduced and passed this will be the most important postal legislation since the founding of the Postal Service 25 years ago. We will closely monitor the progress of this or any legislation which affects us.

Environmental matters

Because we want a safe and healthy environment for our employees and customers, we have set high goals for our environmental policy, and we are meeting them. In 1993, we developed our Environmental Strategic Plan, which focuses on leadership and compliance. Leadership is provided by 21 environmental professionals in our 10 geographic areas, and a small staff



Using a delivery bar code sorter, Mail Processor Deborah Hill at our Chicago Processing and Distribution Center can quickly process the increased amount of pre-barcode mail that results from recent classification reform.

at headquarters. This year, we added a professional in each of our 85 districts. As part of our Quality Assurance Process, these environmental professionals review our facilities and tell us where we need to make improvements. We have completed 105 of these reviews nationally and have 61 in progress. Each operating area is conducting additional reviews to continue to drive compliance nationwide.

Our fleet of alternate fuel vehicles is the most visible contribution of the Postal Service to clean air. We have converted about 7,000 Long-Life Vehicles, nearly 5 percent of the delivery fleet, to natural gas. We have also converted six Long-Life Vehicles to electric power, and we plan to convert 25 more. Since the Energy Policy Act of 1992 requires us to reduce the amount of energy we use by 20 percent by the year 2000, we have undertaken a major effort to adapt new technologies in lighting

and to use more high-efficiency motors.

We promote pollution prevention, we do all that we can to reduce waste, and we recycle and reuse materials wherever possible. We use “green products” to maintain our equipment, and we use linerless labels for address corrections. We use recycled materials for our products. We have bought over 100,000 retreaded tires for our fleet of vehicles, and we use re-refined oil in about 50 percent of our vehicles.

Our efforts have received national, state and local attention in the form of numerous awards this year. We received Energy Management and Shared Energy Savings Awards. The National Recycling Coalition gave us an award for using 50 percent recycled content in our plastic hampers and Universal Mail Containers. The Direct Marketing Association gave us an award for making mail more recyclable. And we received seven White House Closing the Circle Awards, two

of which were recommended by the Environmental Protection Agency (EPA).

We are involved in various litigations and have unresolved claims pending related to environmental matters. We believe that we have made adequate provision in our accounts for the amounts which may become due under these claims. We are of the opinion that such liability is not likely to be of significant importance in relation to our accounts.

Classification reform

The Board of Governors approved a new, market-based rate structure that provides increased economic incentives for low-cost mail by charging rates based on how mailers prepare their mail for our handling. For example, we will give lower rates to mailers who provide full trays of letters to a processing center or ZIP Code, while charging higher rates for mailers who simply presort their mail. We estimate these rate changes will increase our pre-barcode mail by more than 16 billion pieces and reduce our small bundles of mail by 600 million, thus greatly reducing the handling we need to do. Even though these reforms will lead to an increase in mail and in our workload, we think they will also reduce our costs enough so that we will have a net gain.

Inflation

We are a labor intensive business with approximately 80 percent of our costs attributable to personnel compensation and benefits. Therefore, inflation, as reflected in rising labor wage rates, significantly affects our financial condition. In the short term, our current labor contracts alleviate this affect, but in the long term inflation is a key indicator of our change in labor costs.

Analysis of Liquidity

Liquidity is the cash we have in the bank (the Postal Service Fund) at the Department of Treasury and the amount of money we can borrow quickly if we need it to meet our daily financial obligations. Our goal is to manage our cash so that we meet our obligations and use any excess to reduce debt or earn interest. In short, we want to get the most from our money. That's just good business.

During 1996, we collected approximately \$84 billion. In fact, we set a new record for the amount we received in one day. On December 2, 1995, we took in over \$500 million. That's a lot of money to manage effectively, but managing it well can produce significant benefits for us and

ultimately our customers. So during the last five years we have conducted a first-place finish in competition with very aggressive liquidity management 50 corporations. We designed this program to make sure we have enough cash and borrowing ability to meet our daily operating expenses while we use the rest of our cash either to reduce our outstanding debt, or to invest in capital improvements. These investments will increase our productivity and efficiency in the future and allow us to lower our costs while providing better service.

Award winning management

We think our liquidity management program has been very successful, and so do others. In fact, *Treasury & Risk Management* magazine and the National Association of Corporate Treasurers awarded us their 1996 Alexander Hamilton Award for Excellence in Treasury Management and the Alexander Hamilton Gold Award for Cash Management. Our liquidity management was one of

several contributing factors to our first-place finish in competition with 50 corporations.

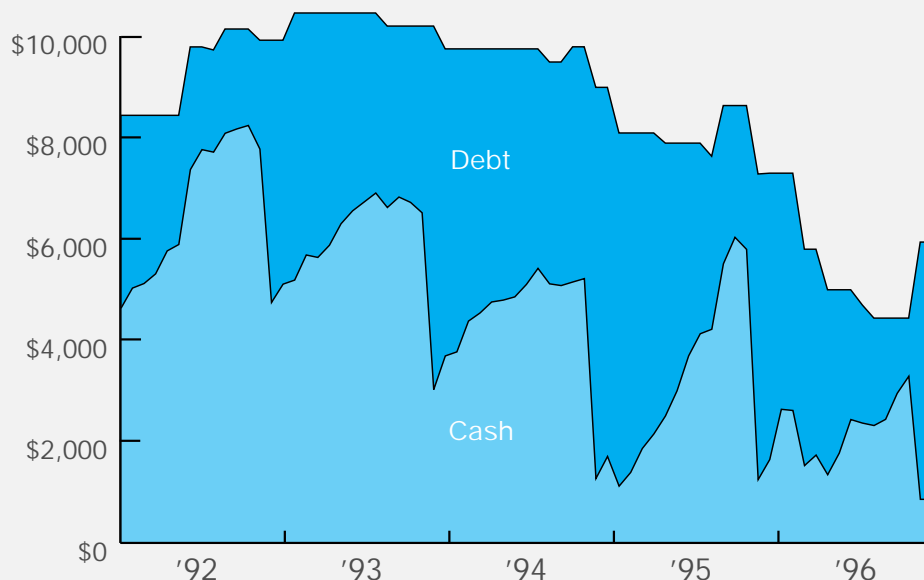
Minimizing cash and debt to control interest expense and risk has been a big job. In late 1992, we had over \$9 billion in cash on hand. We have used our liquidity management program to reduce our cash on hand from an average of \$3.2 billion during 1995 to an average of \$2.1 billion during 1996. On September 30, 1996, we had approximately \$310 million cash and cash equivalents on hand. And we continue to reduce the average amount of cash even though our payroll every two weeks is over \$1 billion.

We reduced cash and debt by focusing on cash flow forecasting and by increasing our ability to adjust debt. In late 1992, all of our \$9.9 billion debt was fixed-rate and noncallable. On September 30, 1996, only 32 percent of our \$5.9 billion debt was fixed-rate and noncallable. Fifty percent of the debt was callable, and the remaining debt was against new credit lines with the Department of Treasury's Federal Financing Bank.

We have also invested cash back into the business, for such capital improvements as new facilities, new automation equipment, and new services. (These capital improvements are discussed in the following section, Analysis of Capital.) More important, because of our liquidity management program we have been able to make these investments without increasing our outstanding debt. In fact, for 1996, our interest expense on borrowings was \$368 million, which is a decrease of \$198 million or 35 percent from 1995, and a \$270 million decrease from our 1992 financing expense of \$638 million. That is a 42 percent decrease in financing expenses in just four years.

Strategy: Minimize Cash and Debt

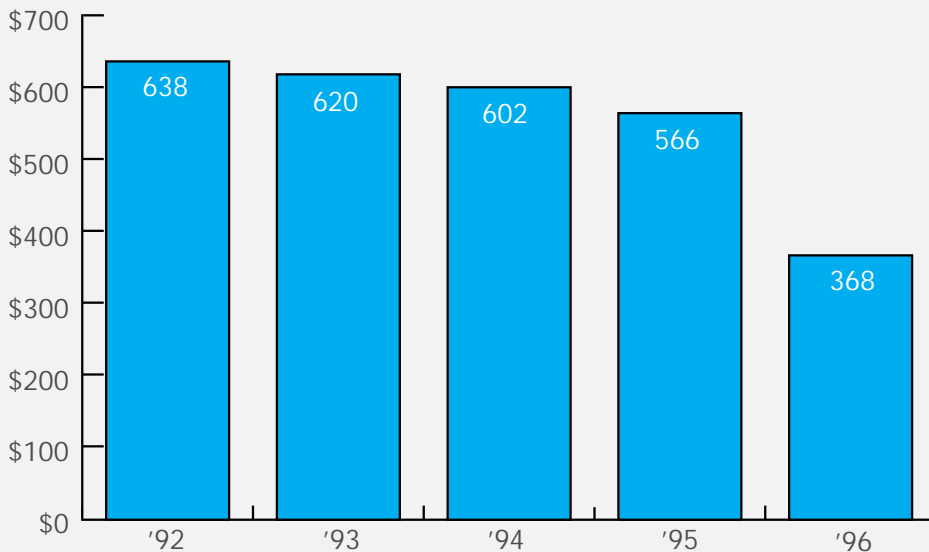
Years 1992–1996
(dollars in millions)



Interest Expense on Borrowing

Years 1992–1996

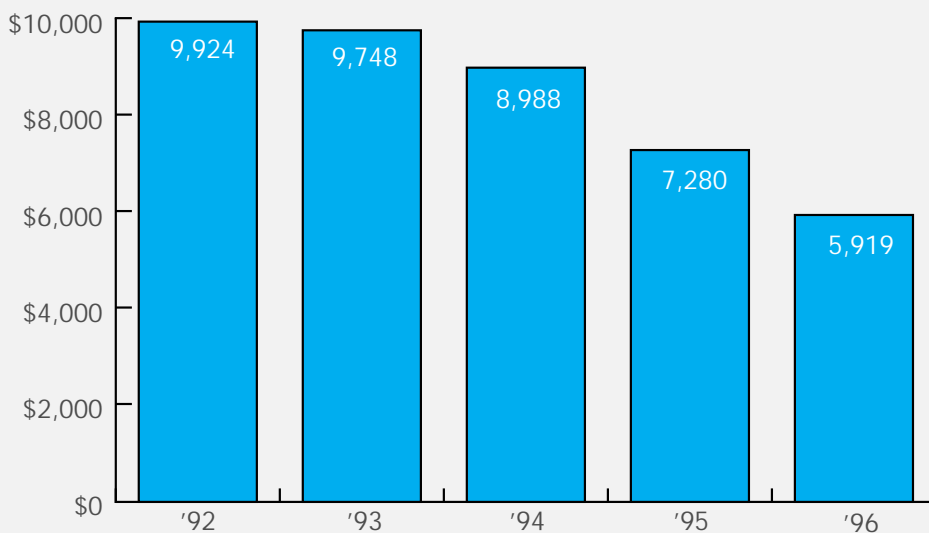
(dollars in millions)



Debt Outstanding at Year End

Years 1992–1996

(dollars in millions)



Reducing debt

Since 1992, we have reduced debt 40 percent, from \$9.9 billion to \$5.9 billion on September 30, 1996. However, we expect our cash flow during 1997 to decline from the 1996 level. At the same time we expect our capital investments to increase substantially. As a result, we expect our outstanding debt to increase during 1997.

By law, we can borrow money only after first notifying the Department of Treasury, and offering the debt to them. Therefore, an important part of our liquidity management program is the short-term credit lines we secured from the Department of Treasury for the first time. These lines of credit are similar to those that banks make available to most corporations. One line of credit is an Overnight Revolving Credit Facility for up to \$300 million and is available on the same day that we request it. The second line of credit is a Short-Term Revolving Credit Facility for up to \$700 million and is available within two days. On September 30, 1996, the interest rate on the Overnight credit line was 5.395 percent. The interest rate on the short-term line of credit was 5.163 percent, and we can borrow on this short-term line for any length of time from one day to one year. These lines of credit allow us to reduce the amount of cash we have to keep on hand to meet changing daily liquidity needs. We anticipate that our operating activities in 1997 will continue to provide us with sufficient cash flows to cover future expected obligations and commitments.

Winning awards is nice, but we think it is more important that our liquidity management contributes to making the Postal Service a financially healthy business for years to come and one that will deliver quality services and products at prices consumers and businesses will appreciate.

Analysis of Capital

During 1996, we celebrated the 25th anniversary of the inception of the Postal Service. In 1971, 23 percent of our budget was subsidies from the taxpayers. Equipment and facilities were worn out, and service was poor. Now, 25 years later, not only are we financially self-sufficient, but we are also aggressively working to improve our equipment and facilities and deliver record-setting service at the lowest possible cost. Since 1971, we are delivering more than twice the mail volume to two-thirds more addresses. And to meet this growing demand for our services, we have spent over \$22 billion in capital improvements since the mid-seventies. While we have accomplished much, we know that we have much to do. Our five-year capital investment program is a major part of our plan to meet the challenge of building an even better Postal Service.

It is important to distinguish between our capital commitments (which is money we plan to spend) and cash outlays (which is money we have spent). In addition, we distinguish between money that we have contracted to spend under a previous plan and any planned capital investments. Capital investments can take a long time to complete, from the time we approve the funding for the project, award the contract, complete it and pay the contractor, to the time we record the new asset on our balance sheet and document our return. For example, in April 1986 the Board of Governors approved the first phase of the Long-Life Vehicle project, but it wasn't until 1992 that we were using all of the 99,150 vehicles on the job. And it wasn't until 1996 that we completed a national cost study that demonstrated we had achieved the objectives and the projected returns on the first phase of the project. In other words, this one project took 10 years from approval to completion.

Since 1987, when we began our Corporate Automation Plan, the Board of Governors has approved \$4.4 billion for new, technologically

advanced equipment designed not only to improve our productivity and reduce our costs but also to improve service to our customers. Because of the investments we have made thus far under this plan, we have saved \$6.5 billion on direct labor costs from 1990 to 1995, money that we would have spent had we not invested in this new equipment. Our savings are nearly one and one-half times greater than our investment, and they will continue to increase over time. Although the savings for 1996 weren't available when we prepared this report, we have no indication that they won't continue.

In order to make sure that a project is on track and doing what it is supposed to do, we have two new ways to assess a project's progress and performance. In the second quarter of this year, we reinstituted the Board of Governors' Quarterly Investment Highlights Report, which tracks major projects from approval to when a new building is actually occupied or the piece of equipment is placed in service. We have also begun to establish an interim cost evaluation procedure that will report more frequently on savings and the status of our expected returns on investment for major capital projects.

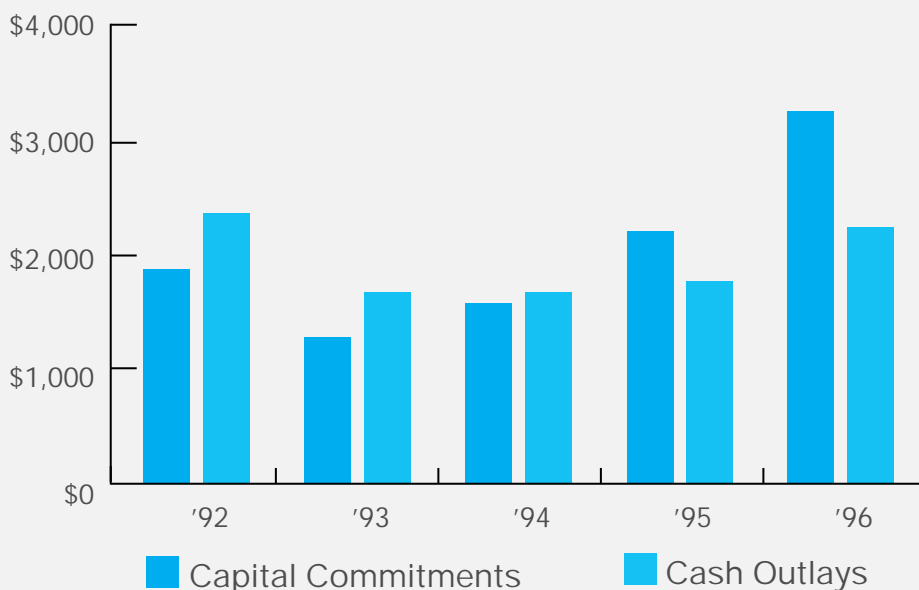
1996 Capital Investment Plan

We are aggressively investing now so that we may save even more in the future. At its October 1995 meeting, the Board of Governors approved the 1996–2000 Capital Investment Plan of \$9.5 billion. During 1996, the Board approved a total of \$2.889 billion for 32 major capital investment projects, including 11 facility projects, 18 equipment projects and three vehicle projects. We made commitments for a majority of these projects. Our capital commitments totaled \$3.307 billion out of the \$3.331 billion called for in the plan. Of this total, \$1.2 billion was for such labor-saving equipment as

Capital Commitments vs. Cash Outlays

Years 1992–1996

(dollars in millions)



delivery bar code sorters, carrier sequence bar code sorters, small parcel and bundle sorters, and 104 additional remote bar coding systems, which was our last major Corporate Automation Plan project. From these projects and from those of previous years, we have put in place over 3,500 pieces of major mail processing equipment during 1996 (see illustration page 8).

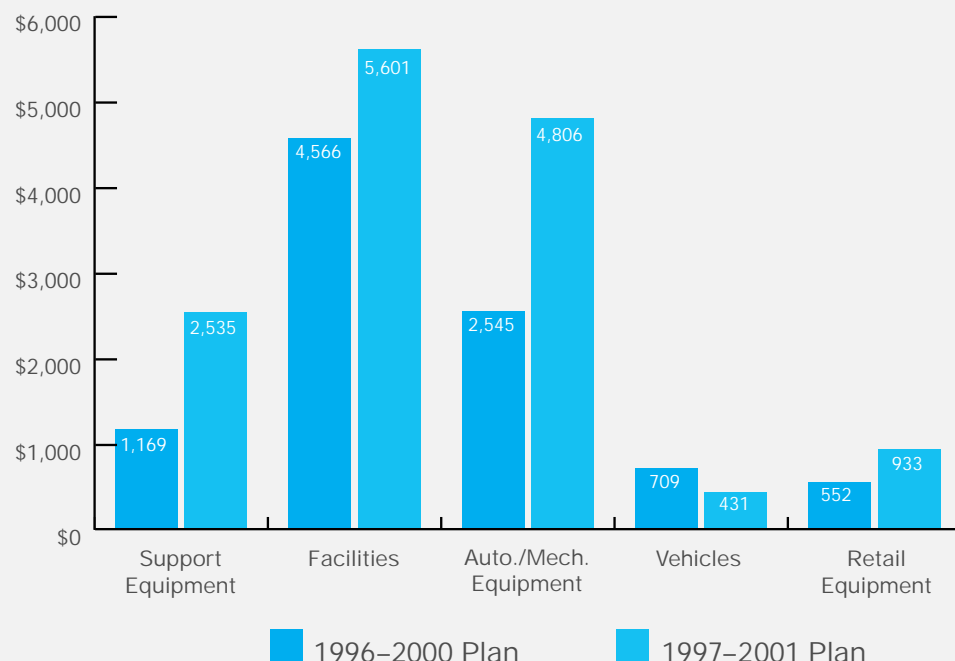
We also committed almost \$1.2 billion to build the facilities we will need if we are to keep up with the increasing volume of mail and the number of places to deliver that mail as a result of a growing population and increasing demand for our products and services. We also need to repair our existing facilities so we can extend their useful lives and ensure good working conditions for our employees, a positive image for our customers and a safe environment for both.

In 1996, the Board approved a national vehicle strategy to replace the aging fleet over the next five years. We committed \$330 million for truck and spotter tractors, mixed delivery and collection vehicles, and carrier route vehicles during the year.

We committed \$218 million to begin buying new electronic point-of-service terminals to replace the aging integrated retail terminals. These new terminals will significantly improve our customer service, supply us with

Comparison of Capital Plans by Category

(dollars in millions)



comprehensive marketing information and allow us to offer new and enhanced products and services.

We committed \$340 million to postal support equipment. This commitment included the research and development funding for two projects, Corporate Call Management and Associate Office Infrastructure, as well as their follow-on prototype and first-phase deployment. These two projects will use the latest technology to increase productivity and improve

customer satisfaction. Included in this commitment is a pilot program for Track and Trace, replacements for Delivery Unit Computer Systems and a program for automating the Philatelic Fulfillment Service Center. The above graph shows the changes in investments projected by the 1997-2001 Capital Investment Plan as compared to the 1996-2000 plan.

Corporate Automation Plan

Investments and expected savings, 1987-2005

(dollars in millions)

Major Project Categories	Approved Investments	Actual Investments	Expected Savings/Cost Avoidances
Multi-line optical character readers	\$ 897	\$ 772	\$ 6,400
Advanced facer-canceler systems	\$ 321	\$ 299	\$ 600
Remote bar coding systems	\$ 1,342	\$ 1,219	\$ 7,200
Delivery bar code sorters	\$ 1,523	\$ 1,363	\$ 4,800
Carrier sequence bar code sorters	\$ 362	\$ 362	\$ 1,500
TOTAL	\$ 4,445	\$ 4,015	\$ 20,500

Note: The investment amounts include expense investments as well as capital investments. Actual investments were developed from cost studies for completed projects and from estimates for uncompleted projects. Expected savings and cost avoidances were taken from our Decision Analysis Reports. (See process description on page 52.)

Review of capital investments

Investing \$9.5 billion in capital improvements will not automatically ensure improved customer service, increased productivity and lower costs unless the money is spent wisely. So we use a capital investment review process that subjects each project to a rigorous four-step review by the Capital Investment Committee.

Step 1: Before a major project proceeds toward validation, it must first go through the *CustomerPerfect!* Deployment Process. Then the National Deployment Team must recommend the project, making sure that the project will contribute to our corporate goals.

Step 2: Next, each project must undergo a comprehensive review, a process that produces a Decision Analysis Report (DAR). This report presents a cost and benefit analysis that projects a return on investment and net present value. The DAR also defines any risks and establishes who is responsible for the project. Then the DAR itself is reviewed by the Vice President Controller, who assesses its

Comparison of Capital Plans by Strategy

(dollars in millions)

Strategy	1996-2000 Capital Plan	1997-2001 Capital Plan	Change
Customer Services/ Revenue Enhancing	\$ 2,395	\$ 4,064	\$ 1,669
Technology	\$ 1,619	\$ 3,657	\$ 2,038
Infrastructure	\$ 5,527	\$ 6,585	\$ 1,058
TOTAL	\$ 9,541	\$14,306	\$ 4,765

reasonableness and accuracy. Selected senior vice presidents can then approve projects up to \$7.5 million. All projects greater than \$7.5 million must be reviewed and approved by the Capital Investment Committee, while projects between \$7.5 and \$10 million must be approved by the Postmaster General. The Board of Governors must approve all capital investment projects greater than \$10 million. Additionally, the Board's Capital Projects Committee reviews all capital projects that come before the Board, providing its recommendations.

Step 3: We establish budget goals for each project, based on how the completed project will affect a postal area's operating budget.

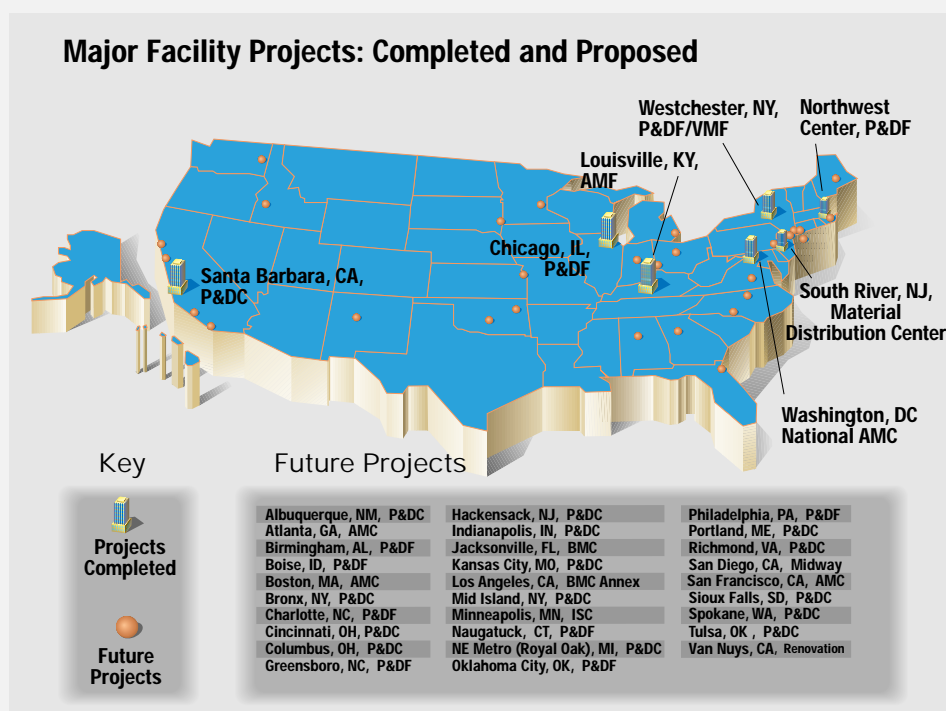
Step 4: We not only monitor the major project from start to finish, but we also monitor it after it's finished to determine whether it is producing the savings it was designed to produce. We use operation audits and cost studies to compare a project's actual results with its projected costs and benefits as stated in the Decision Analysis Report.

Capital Investment Plan for 1997-2001

Our new five-year capital plan for 1997-2001 calls for investing \$14.3 billion, an increase of \$4.8 billion over the plan for 1996-2000. Almost 80 percent of this \$4.8 billion increase will go toward investments in new technology, improvements in customer service and projects to increase revenues. We purposely front-loaded our five-year plan so that these planned investments help us meet our net income projections for 1997 and 1998. In 1997 alone we plan to make commitments of \$6 billion in capital improvements.

During the next five years, we will make significant capital investments to support our three main strategies in technology, improving customer service and increasing revenues, and in improving our infrastructure. During 1997-2001, we will invest:

- \$3.6 billion for technology that will improve the distribution and



delivery of the mail, as well as reduce labor costs by significantly improving productivity, reducing workers' compensation costs, and other related labor costs.

- \$4.1 billion in programs that will make it easier for our customers to do business with us and increase our revenues.
- \$6.6 billion to continue our program to maintain, improve or replace our over 35,000 facilities, as well as upgrade our information and telecommunications systems and our fleet of vehicles.

This capital investment program will ensure a better future for us by reducing costs while improving the quality of our services. Future operating budgets will be reduced because these investments will lower costs and produce continued savings.

"These capital investments will help us provide more consistent, high-quality service while reducing costs and providing the opportunities to increase revenue. The \$3.6 billion we propose to invest in new technology will more than pay for itself over the course of the five-year plan in improved efficiency and customer satisfaction."

Marvin Runyon
Postmaster General
and Chief Executive Officer

Bringing it all together

A good example of bringing all of the goals of the Postal Service together is the construction of the new Santa Barbara Processing and Distribution Center (P&DC). We have used our capital wisely to accomplish the goals of increasing productivity, promoting the efficient handling of mail, and

improving service for the Santa Barbara area. The background for the project is described below.

When the population of this coastal California area increased 24 percent from 1983 to 1993, First-Class Mail and Standard Mail (A) volumes increased 74 percent. To handle this increase, our Corporate Automation Plan called for new



The Board of Governors approved the Santa Barbara, CA, Processing and Distribution Center, which became operational in 1996.

Management Discussion and Analysis of Liquidity and Capital

equipment to automate destinating letter distribution, known as Delivery Point Sequencing (DPS). The population increase and the lack of space for new equipment had strained the former center to its limits.

The new center has almost 240,000 square feet. This allowed installation of our new DPS equipment. The new center also has our latest material handling equipment for the processing of all mail, particularly bulk mail. This new center with the latest equipment will improve the delivery of the mail by reducing the time it takes to move the mail. The approximate cost of the center was \$24 million, significantly below our

expectations. Most mail processing equipment is not included in the construction cost of the center, instead it is generally included in the Corporate Automation Plan's costs. The center is staffed with just over 400 employees. The following major pieces of equipment were installed:

- 13 Delivery Bar Code Sorters (DBCS)
- 2 Input Sub-System Multi-Line Optical Character Readers (ISS/MLOCR)
- 3 Output Sub-System Mail Processing Bar Code Sorters (OSS/MPBCS)
- 1 Multi-Position Letter Sorting Machine (MPLSM)

- 3 Advanced Facer Canceler Systems (AFCS)
- 1 MARK II Facer Canceler
- 1 Mail Processing Bar Code Sorter (MPBCS)
- 2 Multi-Position Flats Sorting Machines (MPFSM)

This equipment allows us to process approximately 415 million pieces of mail per year at Santa Barbara, not including mail transferred in bulk to other facilities. Santa Barbara is also one of our 215 national Computerized Forwarding System (CFS) sites. Santa Barbara forwards from 30,000 to 50,000 pieces of mail each day for our customers who have moved to a new address.



Our Santa Barbara, CA, Processing and Distribution Center contains the latest automation. Daniel Montoya, mail processor, operates a delivery bar code sorter.

STATEMENTS OF OPERATIONS	Years ended September 30,		
	1996	1995	1994
	(dollars in millions)		
Operating revenue — Note 5	\$ 56,402.0	\$ 54,293.5	\$ 49,383.4
Operating expenses:			
Compensation and benefits — Notes 1, 3, and 4	42,675.5	41,931.3	39,608.8
Other	10,437.0	8,798.9	8,846.4
TOTAL OPERATING EXPENSES	53,112.5	50,730.2	48,455.2
Income from operations	3,289.5	3,563.3	928.2
Interest and investment income	141.7	215.9	193.4
Interest expense on deferred retirement liabilities — Note 4	(1,448.7)	(1,363.5)	(1,336.4)
Interest expense on borrowings	(368.0)	(566.4)	(601.5)
Imputed interest on OBRA 1990 and OBRA 1993 retroactive assessments for employee benefits — Note 2	(47.3)	(79.0)	(97.3)
NET INCOME (LOSS)	\$ 1,567.2	\$ 1,770.3	(\$ 913.6)

See accompanying notes to financial statements.

Financial Statements

	1996	September 30, 1995
BALANCE SHEETS	(dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 309.8	\$ 1,516.8
Receivables:		
Foreign countries	547.2	684.2
U.S. Government	109.5	88.1
Consignment	38.1	38.1
Other	115.8	147.0
	810.6	957.4
Less allowances	83.3	79.0
TOTAL RECEIVABLES, NET	727.3	878.4
Supplies, advances and prepayments	410.0	379.3
TOTAL CURRENT ASSETS	1,447.1	2,774.5
Other assets, principally revenue forgone appropriations receivable — Note 5	354.2	317.5
PROPERTY AND EQUIPMENT, AT COST:		
Buildings	12,923.3	11,917.2
Equipment	9,738.2	8,798.1
Land	2,107.0	1,997.1
Leasehold improvements	695.4	618.8
	25,463.9	23,331.2
Less allowances for depreciation and amortization	9,157.7	8,078.0
	16,306.2	15,253.2
Construction in progress	1,551.7	1,616.3
TOTAL PROPERTY AND EQUIPMENT, NET	17,857.9	16,869.5
Deferred retirement costs — Note 4	31,944.3	28,959.7
TOTAL ASSETS	\$ 51,603.5	\$ 48,921.2

See accompanying notes to financial statements.

	September 30,	
	1996	1995
BALANCE SHEETS	(dollars in millions)	
.....		
LIABILITIES AND NET CAPITAL DEFICIENCY		
Current liabilities:		
Compensation and benefits	\$ 4,742.7	\$ 5,198.9
Estimated prepaid postage	1,723.4	1,697.4
Payables and accrued expenses:		
Foreign countries	720.5	958.9
U.S. Government	225.9	314.5
Other	<u>877.7</u>	<u>740.9</u>
Total payables and accrued expenses	1,824.1	2,014.3
Prepaid box rentals, permit and metered mail	1,592.3	1,430.5
Outstanding postal money orders	680.6	697.3
Current portion of debt	<u>2,009.5</u>	<u>260.9</u>
TOTAL CURRENT LIABILITIES	12,572.6	11,299.3
.....		
Long-term debt, less current portion — Note 6	3,909.2	7,018.6
.....		
Other liabilities:		
Amounts payable for deferred retirement benefits — Note 4	30,459.4	27,612.9
Workers' compensation costs — Note 1	4,890.0	4,685.3
Retroactive assessments payable to the U.S. Government — Note 2	330.8	598.2
Employees' accumulated leave	1,621.9	1,555.1
Other	<u>443.1</u>	<u>342.8</u>
	37,745.2	34,794.3
.....		
Commitments and contingencies — Notes 7 and 8		
.....		
Net capital deficiency		
Capital contributions of the U.S. Government	3,034.4	3,034.1
Deficit since reorganization	(5,657.9)	(7,225.1)
TOTAL NET CAPITAL DEFICIENCY	(2,623.5)	(4,191.0)
TOTAL LIABILITIES AND NET CAPITAL DEFICIENCY	\$ 51,603.5	\$ 48,921.2

See accompanying notes to financial statements.

Financial Statements

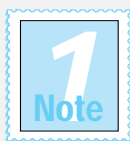
STATEMENTS OF CHANGES IN NET CAPITAL DEFICIENCY	Years ended September 30, 1996, 1995, and 1994 (dollars in millions)		
	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital Deficiency
Balance, September 30, 1993	\$ 3,034.1	(\$ 8,081.8)	(\$ 5,047.7)
Net Loss	—	(913.6)	(913.6)
Capital Equipment Transfers to the U.S. Government	(0.2)	—	(0.2)
Balance, September 30, 1994	3,033.9	(8,995.4)	(5,961.5)
Net Income	—	1,770.3	1,770.3
Capital Equipment Transfers from the U.S. Government	0.2	—	0.2
Balance, September 30, 1995	3,034.1	(7,225.1)	(4,191.0)
Net Income	—	1,567.2	1,567.2
Capital Equipment Transfers from the U.S. Government	0.3	—	0.3
Balance, September 30, 1996	<u>\$ 3,034.4</u>	<u>(\$ 5,657.9)</u>	<u>(\$ 2,623.5)</u>

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS	Years ended September 30,		
	1996	1995	1994
	(dollars in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 1,567.2	\$ 1,770.3	(\$ 913.6)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,332.5	1,141.4	991.9
(Gain) loss on sales of investments, net	—	(2.0)	0.1
Loss on disposals of property and equipment, net	14.5	8.3	23.6
Increase in other assets, principally revenue forgone appropriations receivable	(36.7)	(51.5)	(63.5)
Decrease in accrued restructuring costs	—	(26.2)	(92.4)
Increase (decrease) in workers' compensation costs	205.2	359.1	(173.8)
Decrease in retroactive assessments payable to the U.S. Government	(299.7)	(626.1)	(374.7)
Increase in employees' accumulated leave	66.8	41.5	115.5
Increase in other liabilities	100.3	110.9	70.9
Changes in current assets and liabilities:			
Decrease (increase) in receivables, net	151.1	2.7	(15.7)
(Increase) decrease in supplies, advances and prepayments	(30.7)	(18.5)	8.9
(Decrease) increase in compensation and benefits	(562.4)	976.1	163.6
Increase in estimated prepaid postage	26.0	130.0	38.0
(Decrease) increase in payables and accrued expenses	(190.2)	(211.4)	633.4
Increase in prepaid box rentals, permit and metered mail	161.8	110.5	114.5
(Decrease) increase in outstanding postal money orders	(16.7)	(134.2)	133.3
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,489.0</u>	<u>3,580.9</u>	<u>660.0</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of U.S. Government securities, available-for-sale	(799.1)	(6,349.7)	(10,450.0)
Proceeds from sale of U.S. Government securities, available-for-sale	800.0	6,368.1	12,219.2
Purchase of property and equipment	(2,339.6)	(1,807.7)	(1,726.5)
Proceeds from sale of property and equipment	3.6	12.7	4.9
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(2,335.1)</u>	<u>(1,776.6)</u>	<u>\$ 47.6</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of debt	1,500.0	1,300.4	300.0
Payments on debt	(2,860.9)	(3,008.4)	(1,060.7)
NET CASH USED IN FINANCING ACTIVITIES	<u>(1,360.9)</u>	<u>(1,708.0)</u>	<u>(760.7)</u>
Net (decrease) increase in cash and cash equivalents	(1,207.0)	96.3	(53.1)
Cash and cash equivalents at beginning of year	1,516.8	1,420.5	1,473.6
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 309.8</u>	<u>\$ 1,516.8</u>	<u>\$ 1,420.5</u>

See accompanying notes to financial statements.

September 30, 1996 and 1995



Postal Operations and Accounting Policies

Nature of Operations

The United States Postal Service (Postal Service) provides mail service to the public, offering a variety of classes of mail services without discrimination among its many customers. This means that within each class of mail our price does not vary by customer for the levels of service we provide. This fulfills our legal mandate to offer universal services at a fair price. Our primary lines of business are First-Class Mail, Standard Mail (A), formerly third-class, and Priority Mail. The principal markets for these services are the communications, distribution and delivery, advertising, and retail markets. As in the past, we continue to conduct our significant operations in 1994 to 1996 primarily in the domestic market, with our International operations representing less than 3 percent of our total revenue.

Our labor force is primarily represented by the American Postal Workers Union, National Association of Letter Carriers, National Postal Mail Handlers Union, and National Rural Letter Carriers Association. Almost 90 percent of our career employees are covered by collective bargaining agreements. No agreement expires in 1997.

Postal Reorganization

The Postal Service commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. The equity that the U.S. Government held in the former Post Office Department became the initial capital of the Postal Service. The Postal Service valued the assets of the former Post Office Department at original cost less accumulated depreciation. The U.S. Government remained responsible for all the liabilities attributable to operations of the former Post Office Department.

Basis of Accounting and Use of Estimates

The Postal Service maintains its accounting records and prepares its financial statements on the accrual basis of accounting. This basis conforms with generally accepted accounting principles. Following these principles, we made estimates and assumptions that affect the amounts we report in the financial statements and footnotes. Actual results may differ from our estimates.

Cash Equivalents

Cash equivalents are securities which mature within 90 days or less of the date we buy them.

Current Values of Financial Instruments

We determine the current value of our investments in non-marketable U.S. Government securities based on the current value of equivalent marketable U.S. Government securities. We determine the current value of our debt on what we

estimate it would cost us to pay off the debt if we used the current yield on equivalent U.S. Treasury debt.

Supplies, Advances and Prepayments

Supplies, advances and prepayments are primarily composed of our inventories of supplies, motor vehicle parts, repairable parts for mail processing equipment, and advances to employees for annual leave. We value our inventories at the lower of average cost or current market price. Total inventories amounted to \$211.1 million at the end of 1996 and \$194.1 million at the end of 1995.

Property and Equipment

We record property and equipment at what it cost us to acquire the assets, including the interest we pay on the money we borrow to pay for the construction of major capital additions. This interest amounted to \$28.5 million in 1996, \$47.2 million in 1995, and \$77.7 million in 1994. We depreciate buildings and equipment over their estimated useful lives using the straight-line method. We amortize leasehold improvements over the period of the lease or the useful life of the improvement, whichever time is shorter.

Estimated Prepaid Postage

This is the amount of cash we estimate that we collected by the end of the year for services that we will perform in the following year.

Compensation and Benefits Payable

This is the salaries and benefits we owe to current and retired employees, including the amounts employees have earned but have not yet been paid, current workers' compensation, unemployment costs, health benefits, and the current portion of the amounts payable for retirement benefits.

Deferred Retirement Benefits

This is the present value of our estimated legal obligation to the Civil Service Retirement and Disability Fund for the amount of retirement benefits as payable in the future for our current employees' retirement and our present retirees and their survivors. The present value of our benefits payable for our current employees increases when management increases basic pay. We amortize and pay this portion of the liability over 30 years at 5 percent interest. The present value of our benefits payable also increases when Cost of Living Adjustments (COLAs) are granted to our retirees or their survivors. We amortize and pay this portion of the liability over 15 years at 5 percent interest. We capitalize as deferred retirement costs the amounts due and payable in future years. We amortize and pay these costs over periods of 30 and 15 years. We account for our participation in the U.S. Government sponsored retirement plans as participation in multi-employer plan arrangements. Therefore, we expense the costs of our retiree benefits when we incur them.

Post-Retirement Health Benefits

Retiree health benefits costs are our obligation to pay a portion of the health insurance premiums of those retirees and their survivors who participate in the Federal Employees

Health Benefits Program (FEHBP). We account for our participation in FEHBP as participation in a multi-employer plan arrangement. Therefore, we expense the costs of our retiree health benefits as we incur them.

Workers' Compensation Costs

We are self-insured for workers' compensation costs, under a program administered by the Department of Labor (DOL). We record these costs, which include the employees' medical expenses and payment for continuation of wages, as an operating expense. At the end of the year, our liability represents our estimated present value of the total amounts we expect to pay for outstanding claims. We base our estimate of the total costs of a claim upon the severity of the injury, the age of the injured employee, the assumed life expectancy of the employee, the trend of our experience with such an injury, and other factors. In our calculation of present value, we use a net discount rate of 0.1 percent for medical expenses and 3.0 percent for compensation claims.

In 1996 we changed one of the assumptions we use to estimate our workers' compensation liability. As part of our calculation, we use the trends in our claims for the current year and the claims from previous years to estimate the length of time an employee will receive workers' compensation. Beginning in 1996 we place greater emphasis on our experience with prior years' claims to estimate this liability. As a result, we have an increase in expense of \$112.9 million in 1996.

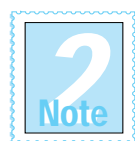
At the end of 1996, we estimate our total liability for future workers' compensation costs at \$5,423.8 million. At the end of 1995, this liability was \$5,218.6 million. In 1996, we recorded \$736.5 million in workers' compensation expense, compared to the \$877.3 million we recorded in 1995 and the \$326.8 million we recorded in 1994.

Research and Development Costs

We record research and development costs as expenses when we incur them. These costs were \$55.5 million in 1996, \$51.9 million in 1995, and \$50.4 million in 1994.

Reclassifications

We have reclassified certain previously reported financial statement amounts in order to conform to this year's presentation.



Retroactive Assessments for Employee Benefits

Omnibus Budget Reconciliation Act of 1990

The Omnibus Budget Reconciliation Act (OBRA) of 1990 requires us to pay our portion of our retirees' cost of living adjustments (COLAs) (Note 4) and health benefits (Note 3). This Act also retroactively assessed us \$2.14 billion as our portion of our retirees' health benefits and cost of living adjustments that the U.S. Government had paid from July 1,

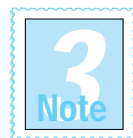
1971, through September 30, 1986. We paid this assessment over a five-year period with the last installment in 1995. We expensed \$33.7 million in 1995 and \$54.4 million in 1994 as interest related to OBRA 1990 retroactive assessments.

Omnibus Budget Reconciliation Act of 1993

Under the Omnibus Budget Reconciliation Act of 1993, we must pay 5 percent interest on the \$2.14 billion retroactive assessment from the Omnibus Budget Reconciliation Act of 1990. We are to pay this interest in three equal annual installments totaling \$1.041 billion. We made the first payment in 1996.

The amounts we must pay under this Act, on a present value basis, are as follows (dollars in millions):

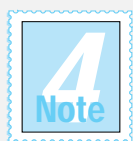
Year	Health Benefits	COLAs	Total
1996	\$ 116.0	\$ 231.0	\$ 347.0
1997	116.0	231.0	347.0
1998	116.0	231.0	347.0
			<u>1,041.0</u>
Less amount representing imputed interest at 5 percent			<u>184.0</u>
Retroactive interest assessment expensed in 1993			857.0
Less: Portion paid in 1996			347.0
Portion to be paid in 1997 classified as a current liability			314.7
Add: amount of imputed interest expensed through 1996 (\$43.2 million in 1994; \$45.0 million in 1995; and \$47.3 million in 1996)			<u>135.5</u>
Retroactive interest assessment classified as a noncurrent liability			<u>\$330.8</u>



Post-Retirement Health Benefit Programs

Employees of the Postal Service who participate in the Federal Employees Health Benefits Program (FEHBP) for at least the five years immediately before their retirement may participate in the FEHBP Program during their retirement. Under the FEHBP, we pay a portion of the health insurance premiums of participating retirees and their survivors. This Program is administered by the Office of Personnel Management.

The Omnibus Budget Reconciliation Act of 1990 requires us to pay the employer's share of health insurance premiums for all employees, and their survivors, who participate in the FEHBP and who retire on or after July 1, 1971. However, we do not include the costs attributable to Federal civilian service before that date. Our FEHBP costs amounted to \$496.8 million in 1996, \$513.3 million in 1995, and \$519.0 million in 1994. We include these costs in our compensation and benefits expense.



Retirement Programs

With certain exceptions, employees participate in one of the following three retirement programs based upon the starting date of their employment with the Postal Service. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Postal Service employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Plan is administered by the Federal Retirement Thrift Investment Board.

Civil Service Retirement and Disability (CSRS) Fund

Under the Postal Reorganization Act, officers and career employees are covered by the Civil Service Retirement and Disability Fund, which provides a basic annuity and Medicare coverage. This Fund covers substantially all employees hired prior to January 1, 1984. We and the participating employee each contribute 7 percent of the employee's basic pay to this Fund. We and the employee also contribute to Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in this Fund.

Dual Civil Service Retirement and Disability (Dual CSRS)/ Social Security System

Employees with prior U.S. Government service who were hired between January 1, 1984 and January 1, 1987 are covered by the Dual Civil Service Retirement and Disability Fund/Social Security System. We contribute 7 percent of the employee's basic pay to the Civil Service Retirement and Disability Fund. The employee contributes 0.8 percent of basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the Dual System.

Federal Employees Retirement System (FERS)

Effective January 1, 1987, employees hired since January 1, 1984, except for those covered by the Dual System, are covered by the Federal Employees Retirement System Act of 1986. In addition, employees hired before January 1, 1984 could choose during certain periods in 1987 and 1988 to participate in the FERS. This System consists of Social Security, a basic annuity plan, and a Thrift Savings Plan.

We contributed to the basic annuity plan 11.4 percent of each employee's basic pay in 1996 and 1995, and 12.9 percent in 1994. Employees contributed 0.8 percent of their basic pay in these years. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this System. We also match a voluntary employee contribution up to 3 percent of the employee's basic pay, and 50 percent of a contribution between 3 percent and 5 percent of basic pay.

The number of employees enrolled in each of the retirement plans at the end of 1996, 1995 and 1994 is as follows:

	1996	1995	1994
CSRS	328,270	340,309	350,811
Dual CSRS/ Social Security	14,320	14,634	14,658
FERS	417,948	398,048	362,339

Deferred Retirement Costs

Deferred retirement costs consist of the following deferred liabilities (dollars in millions):

	1996	1995
CSRS basic pay increases	\$ 26,637.1	\$ 24,097.0
CSRS retirees' and survivors' cost of living adjustments	5,307.2	4,862.7
	<u>\$ 31,944.3</u>	<u>\$ 28,959.7</u>

Deferred Retirement Liability - Civil Service Retirement and Disability Fund

When we raise our employees' current basic pay, we are liable for the additional deferred retirement liability. The liability results from the increase in our employees' retirement benefits which are based on this pay increase. The Office of Personnel Management determines the estimated increase in our deferred liability. We amortize and pay this amount in 30 equal annual installments, which includes interest computed at a rate of 5 percent per year. We make the first payment at the end of the year in which employees receive their pay increase.

The increase in our deferred liability for retirement benefits under this Fund was \$3,696.7 million in 1996, \$2,200.4 million in 1995, and \$930.6 million in 1994.

Deferred Retirement Liability - Retirees' and their Survivors' Cost of Living Adjustments (COLAs)

Congress determines the COLAs granted to our retirees. Under the Omnibus Budget Reconciliation Act of 1990, we are liable for our share of the cost of living adjustments granted to those retirees, and their survivors, retiring on or after July 1, 1971. We are not responsible for any costs due to Federal civilian service before that date.

Each year the Office of Personnel Management determines the estimated increase in our liability under this law for the current year. We amortize and pay each year's amount in 15 equal annual installments, which include interest computed at a rate of 5 percent per year.

The increase in our deferred liability for our retirees' cost of living adjustments was \$951.2 million in 1996, \$971.5 million in 1995, and \$868.7 million in 1994.

Future Minimum Payments

We estimate the future minimum payments we have to make in order to fund Civil Service Retirement and Disability Fund benefits and retirees' cost of living adjustments as of September 30, 1996, are as follows (dollars in millions):

Year	Amount
1997	\$ 3,083.0
1998	3,052.4
1999	3,046.7
2000	3,027.3
2001	3,019.9
After 2001	<u>34,899.4</u>
	<u>\$50,128.7</u>
Less the portion classified as a current liability	1,484.9
Less amount representing interest	<u>18,184.4</u>
	<u>\$30,459.4</u>

Expense Components

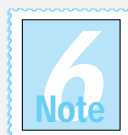
Listed below are the components of our total retirement expenses that are included in our compensation and benefits expense for 1996, 1995, and 1994 (dollars in millions):

	1996	1995	1994
CSRS	\$ 877.1	\$ 842.9	\$ 830.4
FERS	1,472.9	1,270.0	1,230.0
FERS — Thrift Savings Plan	489.2	400.1	339.8
Dual CSRS/Social Security	36.3	34.4	33.5
Social Security	1,082.4	1,008.2	949.7
Amortization of deferred liabilities:			
CSRS	1,156.6	988.3	855.5
Annuitant COLAs	506.7	470.6	424.2
	<u>\$ 5,621.2</u>	<u>\$ 5,014.5</u>	<u>\$ 4,663.1</u>

1998. If Congress doesn't pay us for the services we have already provided, we can by law make up that lost income by adjusting our rates on all mailers through the postal rate making process.

The Revenue Forgone Act of 1993 authorized a total of \$1.218 billion in payments. We calculate the present value of these future reimbursements at 7 percent interest to be approximately \$390 million. At the end of 1996, we have recognized cumulative revenues of approximately \$352.6 million related to these unpaid amounts. This amount is a receivable as of September 30, 1996. We recorded receivables as of year end of \$317.5 million in 1995. We recognized revenue of \$37 million in 1996, and \$54 million in 1995, and \$69 million in 1994.

Although Congress paid its debt to us in 1994, 1995, and 1996, it approved paying us only \$23.6 million of the \$29 million they owe us for 1997, due to budget constraints. We believe that in compliance with the law and the 1996 Congressional Conference Report, Congress will reimburse us the difference in the future.



Debt and Related Interest Costs

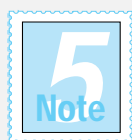
Under the Postal Reorganization Act, as amended by Public Law 101-227, we can issue debt obligations. However, we are limited to net annual increases of \$2 billion in our debt for capital improvements and to \$1 billion for operating expenses. Our total debt cannot exceed \$15 billion.

Debt is due as follows:

Year	Amount
1997	\$2,009.5
1998	683.7
1999	84.9
2000	85.2
2001	51.0
After 2001	<u>3,004.4</u>

We paid in cash \$472.5 million in interest in 1996, \$576.1 million in 1995 and \$684.6 million in 1994.

The current estimated value of debt is \$6,078.2 million in 1996 and \$7,588.6 million in 1995.



Revenue Forgone

Our operating revenue includes accruals for revenue forgone. Revenue is forgone when Congress mandates that we provide free or reduced mail rates for certain mailers. The difference between the price Congress has mandated and the price we would have charged the mailer determines the amount of forgone revenue. Congress appropriates money to reimburse us for only a portion of the revenue forgone that we have incurred in past years. In our operating revenue, we have included as revenue the amounts appropriated by Congress for revenue forgone of \$93.1 million for 1996, \$117.3 million for 1995, and \$131.4 million for 1994.

Under the Revenue Forgone Reform Act of 1993, Congress is required to reimburse us \$29 million annually through 2035 (42 years). This reimbursement is for two purposes: services we performed in 1991, 1992 and 1993 and for which we have not yet been paid; and for shortfalls in the reimbursement for the costs we incurred or will incur for processing and delivering certain nonprofit mail from 1994 through

Notes to Financial Statements

OUR DEBT CONSISTS OF THE FOLLOWING (DOLLARS IN MILLIONS):

Interest Rate %	Terms	September 30,	
		1996	1995
NOTES PAYABLE TO THE FEDERAL FINANCING BANK (FFB):			
8.075	Payable \$32 million each year to May 31, 2000	\$ 128.0	\$ 160.0
7.800	Payable \$15 million each year to May 31, 2001	75.0	90.0
7.591	Payable \$50 million each year to June 1, 1997, and \$22.5 million due on June 1, 1998	72.5	122.5
8.474	Payable \$30 million each year to June 1, 1998	60.0	90.0
8.908	Payable \$35.4 million each year to June 1, 1998	70.8	106.2
9.074	Payable \$60 million each year to June 1, 1998	120.0	180.0
9.081	Payable \$36 million each year to May 31, 1996; \$12 million due June 2, 1997	12.0	48.0
8.768*	Payable \$24 million on June 2, 1997; payments of \$36 million each year on June 1, 1998–1999; and payments of \$36 million each year thereafter through May 31, 2001	168.0	168.0
7.786	Payable on September 30, 1998	450.0	450.0
7.230	Payable on September 30, 1997 (retired \$950 million in year 1995; original maturity was \$800 million payable on October 2, 1995, and \$400 million on September 30, 1997)	250.0	250.0
6.307**	Payable on October 31, 1997; callable November 30, 1995	—	1,500.0
7.367	Payable on August 15, 2002; callable November 30, 1997	1,500.0	1,500.0
7.615	Payable on November 30, 2007; callable November 30, 1997	1,000.0	1,000.0
Variable***	Payable on November 15, 2024; callable November 15, 1995	—	1,100.0
6.274	Payable on May 16, 2005	500.0	500.0
Variable****	Payable on November 15, 2025; callable November 15, 1996	500.0	—
5.395*****	Overnight revolving credit facility; final maturity date January 15, 1997	300.0	—
5.163*****	Short-term revolving credit facility; final maturity date January 15, 1998	700.0	—
		5,906.3	7,264.7
MORTGAGE NOTES PAYABLE:			
5.25 to 9.75	Maturing from years 1997 through 2039, secured by land, buildings and equipment with a carrying amount of \$38.5 million (aggregate annual installments approximate \$1.1 million)	12.4	14.8
		5,918.7	7,279.5
Less current portion of debt		2,009.5	260.9
		\$ 3,909.2	\$ 7,018.6

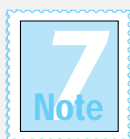
* Weighted average interest rate.

** Retired December 21, 1995.

*** Variable rate of 5.722 percent as of September 30, 1995;
\$800 million retired February 15, 1996;
\$300 million retired May 15, 1996.

**** Variable rate of 5.163 percent as of September 30, 1996.

***** No unused lines of credit as of September 30, 1996. No fees were involved.



Commitments

At September 30, 1996, we estimate the cost to complete approved Postal Service capital projects in progress is approximately \$2.840 billion.

Our total rental expense for the years ended September 30 is summarized as follows (dollars in millions):

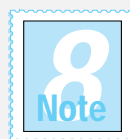
	1996	1995	1994
Noncancellable real estate leases including related taxes	\$ 615.9	\$ 580.5	\$ 555.0
Facilities leased from General Services Administration subject to 120-day notice of cancellation	36.0	34.6	38.0
Equipment and other short-term rentals	<u>152.6</u>	<u>150.0</u>	<u>148.2</u>
	<u>\$ 804.5</u>	<u>\$ 765.1</u>	<u>\$ 741.2</u>

At September 30, 1996, our future minimum rental fees for all noncancellable leases are as follows (dollars in millions):

Year	Operating	Capital
1997	\$ 489.6	\$ 20.1
1998	409.5	20.1
1999	332.1	20.1
2000	250.2	20.1
2001	164.2	20.1
After 2001	<u>643.6</u>	<u>118.6</u>
Future minimum lease payments	\$ 2,289.2	219.1
Less: Interest at 6.5%		<u>62.4</u>
Total capital lease obligations		\$ 156.7
Less: Short-term portion of capital lease obligations		<u>10.1</u>
Long-term portion of capital lease obligations		<u>\$ 146.6</u>

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain noncancellable real estate leases give us the option to purchase the facilities at prices specified in the leases.

Capital leases included in buildings were \$156.7 million in 1996 and \$124.0 million in 1995. Total accumulated amortization is \$27.5 million in 1996 and \$16.5 million in 1995. Amortization expense for assets recorded under capital leases is included in depreciation expense.



Contingent Liabilities

Each quarter we review litigation pending against us. As a result of this review, we classify and adjust our contingencies for claims which we think it is probable that we will lose and for which we can reasonably estimate the amount of the unfavorable outcome. These claims cover labor, equal employment opportunity, environmental issues, traffic accidents, injuries on postal properties, personal claims and property damages, and suits and claims arising from postal contracts. We also recognize the settlement of claims and lawsuits and revisions of other estimates.

As reported in last year's annual report, the Merit Systems Protection Board ruled in July 1993 that the restructuring started in 1992 constituted a reduction-in-force as defined by the Code of Federal Regulations. As a result, we conducted a compliance reduction-in-force according to applicable procedures. Our estimated liability as of September 30, 1996, is based on the number of open appeals at the end of the year, either before the Board or pending before the U.S. Court of Appeals for the Federal Circuit. We have reduced this liability from prior years. Our General Counsel has actively litigated and resolved the majority of the outstanding appeals.

As a part of our continuing evaluation of estimates required in the preparation of our financial statements, we recorded approximately \$120 million in increased liabilities in 1996, and reduced liabilities by approximately \$360 million in 1995. We recognized settlement of claims and law suits and revised other estimates in our changes in contingent liabilities.

Management and General Counsel believe that we have made adequate provision for the amounts which may become due under the suits, claims, and proceedings we have discussed here.

The members of the Audit Committee are selected by the Chairman of the Board of Governors. During 1996, the Committee, consisting of three Governors, met six times during the year in conjunction with the regularly scheduled monthly Board meetings.

The Audit Committee is responsible, on behalf of the Board of Governors, for reviewing the financial reporting process, ensuring the soundness of the accounting and control practices, and verifying the integrity of the financial statements of the Postal Service. As a part of that responsibility, the Committee recommends to the Board of Governors, subject to its approval, the selection of the independent public accounting firm responsible for the external audit work and oversees compliance with the terms of the contract. The Committee also discussed the overall scope of the work and the specific audit plans with its external auditors, Ernst & Young LLP, and the Postal Service's internal auditors, the Postal Inspection Service, at the start of the audit process.

At the start of the year, Ernst & Young LLP changed managing partners on the Postal Service account and during the year there was a change in the Deputy Chief Inspector-Audit position, the individual responsible for the internal audit program. Both changes were accomplished without impacting the quality and timeliness of the audit work.

The Audit Committee met regularly with management, the Inspection Service, and Ernst & Young LLP jointly and, as appropriate, independently to discuss the progress of the audit work, which included an evaluation of the organization's internal controls and the quality of the financial reporting process. This also provided the opportunity for the Committee to assess the coordination of the audit work and ensure the independence and objectivity of the internal and external audit programs. Accordingly, the Committee recommended to the full Board approval of the financial statements for FY 1996.



Einar V. Dyhrkopp
Chairman, Audit Committee
December 3, 1996

Board of Governors
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1996 and 1995, and the related statements of operations and changes in net capital deficiency and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 1996, on our consideration of the United States Postal Service's internal control structure and a report dated November 8, 1996, on its compliance with applicable laws and regulations.

Ernst & Young LLP

Washington, DC
November 8, 1996

Financial History Summary

	1996	1995*	1994*	1993*	1992*
STATEMENT OF OPERATIONS					
(dollars in billions)					
Total revenue	\$ 56.6	\$ 54.5	\$ 49.6	\$ 48.0	\$ 47.1
Total expense	55.0	52.7	50.5	49.8	47.6
NET INCOME (LOSS)	\$ 1.6	\$ 1.8	(\$ 0.9)	(\$ 1.8)	(\$ 0.5)
(dollars in millions)					
Operating revenue	\$ 56,308.9	\$ 54,176.2	\$ 49,252.0	\$ 47,418.0	\$ 46,151.1
Revenue forgone appropriation	93.1	117.3	131.4	164.0	544.7
Total operating revenue	56,402.0	54,293.5	49,383.4	47,582.0	46,695.8
Compensation and benefits	42,675.5	41,931.3	39,608.8	38,447.7	37,122.0
Restructuring costs	—	—	—	129.0	1,010.0
Other expenses	10,437.0	8,798.9	8,846.4	7,744.9	7,520.9
Total operating expenses	53,112.5	50,730.2	48,455.2	46,321.6	45,652.9
Income from operations	3,289.5	3,563.3	928.2	1,260.4	1,042.9
Interest and investment income	141.7	215.9	193.4	404.2	409.2
Interest expense on deferred retirement liabilities	(1,448.7)	(1,363.5)	(1,336.4)	(1,345.9)	(1,269.0)
Imputed interest on retroactive assessment for employee benefits	(47.3)	(79.0)	(97.3)	(69.9)	(81.4)
Interest expense on borrowings	(368.0)	(566.4)	(601.5)	(620.2)	(638.2)
Income (loss) before retroactive assessments and extraordinary item	1,567.2	1,770.3	(913.6)	(371.4)	(536.5)
Retroactive assessments for employee benefits**	—	—	—	(857.0)	—
Income (loss) before extraordinary item	1,567.2	1,770.3	(913.6)	(1,228.4)	(536.5)
Extraordinary item — debt refinancing premium	—	—	—	(536.5)	—
NET INCOME (LOSS)	\$ 1,567.2	\$ 1,770.3	(\$ 913.6)	(\$ 1,764.9)	(\$ 536.5)
BALANCE SHEETS					
Assets					
Current assets	\$ 1,447.1	\$ 2,774.5	\$ 2,683.0	\$ 4,478.1	\$ 6,027.4
Property and equipment, deferred retirement costs, and other assets	50,156.4	46,146.7	43,732.6	42,803.0	41,637.3
TOTAL ASSETS	\$ 51,603.5	\$ 48,921.2	\$ 46,415.6	\$ 47,281.1	\$ 47,664.7
Liabilities					
Current liabilities	\$ 12,572.6	\$ 11,299.3	\$ 11,665.2	\$ 10,139.7	\$ 9,484.2
Other liabilities	37,745.2	34,794.3	32,985.2	33,502.8	32,290.3
Long-term debt	3,909.2	7,018.6	7,726.7	8,686.3	9,173.3
Net capital deficiency	(2,623.5)	(4,191.0)	(5,961.5)	(5,047.7)	(3,283.1)
TOTAL LIABILITIES AND NET CAPITAL DEFICIENCY	\$ 51,603.5	\$ 48,921.2	\$ 46,415.6	\$ 47,281.1	\$ 47,664.7
CHANGES IN NET CAPITAL DEFICIENCY					
Beginning balance	(\$ 4,191.0)	(\$ 5,961.5)	(\$ 5,047.7)	(\$ 3,283.1)	(\$ 2,746.9)
Net income (loss)	1,567.2	1,770.3	(913.6)	(1,764.9)	(536.5)
Capital equipment transfers	0.3	0.2	(0.2)	0.3	0.3
ENDING BALANCE	(\$ 2,623.5)	(\$ 4,191.0)	(\$ 5,961.5)	(\$ 5,047.7)	(\$ 3,283.1)

* Certain reclassifications have been made to previously reported amounts.

** Relates to OBRA 1990 and 1993, for FY 1991 and FY 1993 respectively.

Financial History Summary

1991*	1990*	1989*	1988*	1987*	1986*
\$ 44.2	\$ 40.1	\$ 38.9	\$ 35.9	\$ 32.5	\$ 31.1
45.7	41.0	38.8	36.5	32.7	30.8
(\$ 1.5)	(\$ 0.9)	\$ 0.1	(\$ 0.6)	(\$ 0.2)	\$ 0.3
\$ 43,322.6	\$ 39,201.4	\$ 37,978.7	\$ 35,035.8	\$ 31,528.1	\$ 30,102.1
561.9	453.4	436.4	517.0	650.0	715.8
43,884.5	39,654.8	38,415.1	35,552.8	32,178.1	30,817.9
34,904.3	33,158.2	31,348.9	29,558.1	26,324.9	24,695.6
—	—	—	—	—	—
7,214.6	6,275.8	6,002.4	5,640.5	5,290.8	5,140.7
42,118.9	39,434.0	37,351.3	35,198.6	31,615.7	29,836.3
1,765.6	220.8	1,063.8	354.2	562.4	981.6
317.8	419.7	504.5	386.0	327.2	316.8
(1,171.9)	(1,055.9)	(1,019.5)	(920.6)	(904.0)	(880.2)
(90.5)	—	—	—	—	—
(479.5)	(458.2)	(488.1)	(416.5)	(208.3)	(113.6)
341.5	(873.6)	60.7	(596.9)	(222.7)	304.6
(1,810.1)	—	—	—	—	—
(1,468.6)	(873.6)	60.7	(596.9)	(222.7)	304.6
—	—	—	—	—	—
(\$ 1,468.6)	(\$ 873.6)	\$ 60.7	(\$ 596.9)	(\$ 222.7)	\$ 304.6
\$ 4,863.3	\$ 4,528.3	\$ 5,448.4	\$ 4,731.8	\$ 5,340.5	\$ 4,658.5
38,402.2	32,976.3	31,323.5	29,940.5	26,746.7	25,155.7
\$ 43,265.5	\$ 37,504.6	\$ 36,771.9	\$ 34,672.3	\$ 32,087.2	\$ 29,814.2
\$ 7,400.1	\$ 6,289.8	\$ 5,897.8	\$ 5,499.6	\$ 5,603.2	\$ 4,846.5
30,473.9	25,825.0	25,102.6	24,020.4	21,911.2	21,513.2
8,138.4	6,667.5	6,173.1	5,612.7	4,434.6	3,092.6
(2,746.9)	(1,277.7)	(401.6)	(460.4)	138.2	361.9
\$ 43,265.5	\$ 37,504.6	\$ 36,771.9	\$ 34,672.3	\$ 32,087.2	\$ 29,814.2
(1,277.7)	(401.6)	(460.4)	\$ 138.2	\$ 361.9	\$ 58.4
(1,468.6)	(873.6)	60.7	(596.9)	(222.7)	304.6
(0.6)	(2.5)	(1.9)	(1.8)	(1.0)	(1.1)
(\$ 2,746.9)	(\$ 1,277.7)	(\$ 401.6)	(\$ 460.4)	\$ 138.2	\$ 361.9

Operating Statistics

	1996	1995	1994*	1993	1992
MAIL REVENUE	(in millions of units indicated)				
FIRST-CLASS MAIL					
Pieces, number	97,276.0	96,295.9	95,332.9	92,169.4	90,781.0
Weight, pounds	3,989.6	3,865.0	3,780.9	3,672.2	3,496.5
Revenue	\$33,007.5	\$31,955.1	\$29,376.8	\$28,827.8	\$28,296.0
PRIORITY MAIL					
Pieces, number	959.4	869.0	769.6	664.4	584.4
Weight, pounds	1,599.1	1,483.7	1,332.7	1,174.6	1,108.6
Revenue	\$ 3,399.5	\$ 3,074.7	\$ 2,653.4	\$ 2,299.7	\$ 2,070.8
EXPRESS MAIL					
Pieces, number	57.6	56.7	56.2	52.4	53.2
Weight, pounds	63.7	62.5	64.8	60.9	63.2
Revenue	\$ 736.8	\$ 710.9	\$ 671.4	\$ 627.1	\$ 639.0
MAILGRAM					
Pieces, number	4.2	4.5	5.3	7.2	7.5
Revenue	\$ 1.6	\$ 1.5	\$ 1.7	\$ 7.1	\$ 7.7
PERIODICALS					
Pieces, number	10,126.2	10,194.2	10,227.6	10,306.1	10,318.6
Weight, pounds	4,132.0	4,210.8	4,088.2	4,040.5	3,830.4
Revenue	\$ 2,014.1	\$ 1,971.9	\$ 1,757.5	\$ 1,740.4	\$ 1,751.2
STANDARD MAIL (A)					
Pieces, number	71,859.3	71,112.1	69,415.5	65,773.2	62,547.2
Weight, pounds	9,024.7	9,233.9	8,798.4	8,006.5	7,122.9
Revenue	\$12,206.9	\$11,791.5	\$10,513.8	\$ 9,816.7	\$ 9,490.2
STANDARD MAIL (B)					
Pieces, number	959.7	936.2	871.5	743.8	764.5
Weight, pounds	2,730.5	2,708.6	2,621.1	2,284.4	2,396.8
Revenue	\$ 1,549.9	\$ 1,524.7	\$ 1,352.7	\$ 1,183.4	\$ 1,186.4
INTERNATIONAL SURFACE					
Pieces, number	104.3	105.5	122.5	124.4	132.9
Weight, pounds	103.3	114.2	117.0	125.1	120.2
Revenue	\$ 196.4	\$ 205.3	\$ 204.5	\$ 210.9	\$ 206.6
INTERNATIONAL AIR					
Pieces, number	894.3	695.6	739.7	782.6	656.3
Weight, pounds	143.4	135.2	122.9	119.9	107.7
Revenue	\$ 1,411.1	\$ 1,254.1	\$ 1,207.6	\$ 1,195.6	\$ 1,069.2
U.S. POSTAL SERVICE					
Pieces, number	368.6	412.3	448.9	543.7	551.4
Weight, pounds	99.9	79.7	72.3	80.9	91.6
FREE FOR THE BLIND					
Pieces, number	51.1	51.7	49.7	52.8	46.4
Weight, pounds	33.4	32.1	28.2	33.3	30.7
TOTALS**					
Pieces, number	182,660.7	180,733.7	178,039.4	171,220.0	166,443.4
Weight, pounds	21,919.6	21,925.7	21,026.5	19,598.3	18,368.6
Mail Revenue	\$54,523.8	\$52,489.7	\$47,739.4	\$45,908.7	\$44,717.1

* Certain reclassifications have been made to previously reported amounts.

** Penalty and franked mail are included in their classes of mail.

	1996	1995	1994*	1993	1992
SPECIAL SERVICES	<i>(in millions of units indicated)</i>				
REGISTRY					
Number of articles (paid and free)	18.6	20.5	22.6	23.9	25.3
Revenue	\$ 113.3	\$ 117.5	\$ 120.3	\$ 130.4	\$ 131.0
CERTIFIED					
Number of pieces (paid and free)	277.2	288.8	240.2	237.1	219.4
Revenue	\$ 571.7	\$ 560.3	\$ 428.4	\$ 425.5	\$ 392.8
INSURANCE					
Number of articles (paid and free)	29.4	28.9	32.2	30.8	34.1
Revenue	\$ 50.3	\$ 51.8	\$ 53.4	\$ 52.0	\$ 56.2
COLLECTION-ON-DELIVERY					
Number of articles	4.9	5.3	5.5	6.8	8.3
Revenue	\$ 21.3	\$ 20.8	\$ 16.7	\$ 20.3	\$ 24.8
SPECIAL DELIVERY					
Number of articles (paid and free)	0.4	0.3	0.6	0.3	0.8
Revenue	\$ 3.9	\$ 2.9	\$ 5.0	\$ 2.4	\$ 5.5
MONEY ORDERS					
Number issued	214.0	201.8	196.7	186.4	177.6
Revenue	\$ 221.3	\$ 169.4	\$ 154.3	\$ 165.9	\$ 154.4
Face value of issues (non-add)	\$ 26,605.1	\$ 24,608.5	\$ 23,719.2	\$ 21,919.6	\$ 19,794.5
OTHER					
Box rent revenue	\$ 570.3	\$ 531.8	\$ 489.2	\$ 481.0	\$ 457.2
Stamped envelope revenue	\$ 15.9	\$ 25.4	\$ 17.2	\$ 18.1	\$ 18.1
Other revenue, net	\$ 217.1	\$ 206.6	\$ 228.1	\$ 213.9	\$ 194.0
TOTALS					
Special services revenue	\$ 1,785.1	\$ 1,686.5	\$ 1,512.6	\$ 1,509.5	\$ 1,434.0
Mail revenue	\$ 54,523.8	\$ 52,489.7	\$ 47,739.4	\$ 45,908.7	\$ 44,717.1
Operating revenue before appropriations	\$ 56,308.9	\$ 54,176.2	\$ 49,252.0	\$ 47,418.2	\$ 46,151.1

* Certain reclassifications have been made to previously reported amounts.

Operating Statistics

	1996	1995	1994	1993	1992
EMPLOYEES*					
Headquarters — L'Enfant Plaza	1,951	1,825	1,701	1,762	2,434
Headquarters — Field Support Units	4,020	4,186	4,117	4,157	5,663
Inspection Service (field)	4,432	4,298	4,308	4,181	4,324
Discontinued Operations	3	—	85	189	—
FIELD CAREER EMPLOYEES*					
Area Offices	1,541	1,235	1,262	1,062	—
Regional Offices	—	—	—	—	586
Postmasters/Installation Heads	26,489	26,564	26,803	25,304	26,496
Supervisors/Managers	35,282	34,732	34,616	31,936	43,185
Prof. Admin. Tech. Personnel	11,035	10,987	10,924	10,306	10,440
Clerks	276,964	273,526	265,294	257,147	268,049
Nurses	188	188	181	224	286
Mail Handlers	58,305	57,352	54,859	51,078	49,520
City Delivery Carriers	238,370	239,877	229,138	211,893	223,088
Motor Vehicle Operators	8,429	8,029	7,577	7,199	7,086
Rural Delivery Carriers — Full-Time	48,340	46,113	45,049	43,694	43,283
Special Delivery Messengers	1,463	1,517	1,574	1,571	1,742
Bldg. & Equip. Maintenance Personnel	39,272	38,161	36,767	35,444	34,367
Vehicle Maintenance Personnel	4,882	4,794	4,689	4,576	4,741
TOTAL CAREER EMPLOYEES	760,966	753,384	728,944	691,723	725,290
NON-CAREER EMPLOYEES*					
Casuals	24,696	26,401	25,674	25,889	27,204
Non-Bargaining Temporary	654	596	613	1,452	603
Rural Subs/RCA/RCR/AUX	53,768	50,269	46,589	44,456	43,830
PM Relief/Leave Replacements	12,724	12,774	12,683	12,087	12,415
Transitional Employees	33,066	31,548	37,542	42,272	9,732
OFFICES, STATIONS, AND BRANCHES					
Number of post offices	28,189	28,392	28,657	28,728	28,837
Number of stations and branches:					
Classified stations and branches	5,521	5,651	5,682	4,692	4,685
Contract stations and branches	2,897	3,480	3,424	4,367	4,443
Community post offices	1,605	1,626	1,609	1,605	1,630
Subtotal	10,023	10,757	10,715	10,664	10,758
TOTAL OFFICES, STATIONS, AND BRANCHES	38,212	39,149	39,372	39,392	39,595

* Complement data conforms with current method of counting career on-rolls employees using On-Rolls and Paid Employees Statistics database.